Quality Chemical Industries Limited

ANNUAL REPORT
FY23/24

AT QUALITY CHEMICAL INDUSTRIES LIMITED, WE EMBODY THE SPIRIT OF LIVING VIGOROUSLY.

AT THE HEART OF OUR COMMITMENT TO SCIENTIFIC INNOVATION AND TRUE WELLNESS IS OUR MANTRA, "LIFE AFTER WELL".

This Report is designed to provide a comprehensive view of our performance, encompassing both financial and non-financial achievements. It explores key areas such as our leadership strategy, organisational culture, and strategic planning, detailing how we generate value for our stakeholders.

Join us in discovering the Qcil journey within this Report. We will walk you through our historical accomplishments, present standing, and goals. Along the way, we will illustrate the intricate relationships between our strategy, the resources we deploy, and the tangible value we create for those we serve.

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ABOUT THIS REPORT

BOARD APPROVAL

REPORTING SCOPE AND BOUNDARY

This Report covers the financial and non-financial performance of the continuing operations of Quality Chemical Industries Limited (Qcil or the Company) for the financial year from 1 April 2023 to 31 March 2024 (FY23/24), unless otherwise stated.

The Audited Financial Statements of the Company are published in this Report. We continue to apply the principle of materiality in determining the content and disclosures in the Report. The Board has identified material issues which could affect the Company's ability to deliver its strategy and could have a material impact on its revenue and profitability (refer to Risk Governance and Oversight on page 39 of this Report).

This Report shows the progress we have made so far in our journey to embed ESG principles into our growth trajectory in the short and long term. The information is issued on an annual basis to highlight our sustainability performance and progress.

The contents herein are centred around material topics that are key to ensuring the sustained prosperity of our business and have been identified through engagement with our stakeholders. Specifically, we highlight:

- Our strategic and operational framework;
- Enhancing the transparency of our disclosures and staying accountable for our actions; and
- The impact of our actions on people and the planet.

REPORTING STANDARDS AND COMPLIANCE

In drafting this Report, we used the International Integrated Reporting Framework and the Global Reporting Initiative's Standards as part of our commitment to transparently communicate our strategy, risks and opportunities, governance, and performance, and how these elements are effectively considered in managing our impact on people and planet.

We strive to create a comprehensive Report that captures the multifaceted success of Qcil.

ASSURANCE

The Company's independent auditor, Grant Thornton, has provided assurance on the Annual Financial Statements and has stated that they present fairly, in all material respects, the financial position of the Company as at 31 March 2024, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2012 (as amended).

Management has verified the processes for measuring all other non-financial information.

BOARD APPROVAL

The Board has reviewed the Report and believes it fairly represents the Company's performance, material issues and risks, strategy and growth prospects. The Audit and Risk Committee, which has oversight for the integrity of the Annual Report, recommended the Report for approval by the Board, which subsequently approved the Report for release to stakeholders.

FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements within the meaning of the local laws regarding Qcil's business, strategy, goals, commitments and objectives. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed, projected, anticipated or implied in such statements. All statements, other than statements of historical facts, may be forward-looking statements. Some forward-looking statements may be identified by the use of words such as "plan," "expect," "believe," "intend," "will," "may," "anticipate," estimate," "target," and other words of similar meaning in conjunction with, among other things, discussions of future operations and financial performance and strategy for growth, future product development, regulatory approvals, competitive position, sustainability initiatives and expenditures. Readers should therefore not place undue reliance on forward-looking statements.

Forward-looking statements are, and will be, based on Management's then-current views and assumptions regarding future events, developments and operating performance, and speak only as of their dates. Statements regarding Qcil's goals, commitments and objectives may include statistics or metrics that are based on estimates and assumptions under developing standards that may change in the future. Such goals and commitments are not intended to be promises or guarantees, and actual results may differ, possibly materially. It is not possible to predict or identify all of these risks and uncertainties, many of which are beyond Qcil's control, including, without limitation, challenges relating to economic, competitive, governmental and technological factors affecting Qcil's operations, markets and products, and other factors listed in Qcil's Report. Qcil expressly disclaims any undertaking to update or revise any forward-looking statements set forth herein to reflect events or circumstances after the date hereof, except as required by applicable law or regulation.

NAVIGATING THE REPORT

CAPITALS	STAKEHOLDERS
MANUFACTURING	SHAREHOLDERS AND INVESTORS
HUMAN	OUR EMPLOYEES
SOCIAL AND RELATIONSHIP	OUR COMMUNITIES
NATURAL	SUPPLIERS AND SERVICE PROVIDERS
FINANCIAL	CONSULTANTS AND BUSINESS PARTNERS
INTELLECTUAL	PATIENTS, HEALTHCARE PROFESSIONALS AND CUSTOMERS
	GOVERNMENTS AND PHARMACEUTICAL REGULATORY BODIES

WHO WE ARE

INTRODUCTION TO QCIL

Qcil is a publicly listed pharmaceutical company established in Uganda in 2005. The Company is one of the largest producers of HIV/AIDS and malaria treatments in the region, providing quality, affordable medicines sustainably, enabling patients to live "Life after well".

At Qcil, we believe that health isn't merely the absence of illness, but the vibrant pursuit of life's possibilities. In Africa, vitality and resilience are virtues we celebrate – which is why for us, it is not about surviving, it is about thriving. This is what makes us more than just medication manufacturers. We embody the spirit of living vigorously. At the heart of our commitment to scientific innovation and true wellness is our mantra, "Life after well".

FOUNDATION AND EVOLUTION: TRACING QCIL'S JOURNEY

2005

Quality Chemical Industries Limited was incorporated as a joint venture between, inter alia, Messrs. Emmanuel Katongole, Frederick Mutebi Kitaka and George Baguma (the Sponsors) and Cipla Limited (Cipla).

2010

Became first WHO-prequalified[1] facility in the region for its antiretrovirals (ARVs) and Artemisinin-based combination therapies (ACTs).

Signed contract and became the first in Africa to supply Global Fund with ACTs.

2014

Cipla aquired control of the Company and the Company changed its name to Cipla Quality Chemical Industries Limited (CiplaQCIL).

2016

The Company was converted to a public company.

2018

The Company listed on the Uganda Securities Exchange, offering issued shares to individual and institutional investors in an Initial Public Offering (IPO).

Manufacturing capacity addition.

2019

Commissioning of new warehouse with 5,000 pallet capacity.

2020

Commissioning of new laboratory.

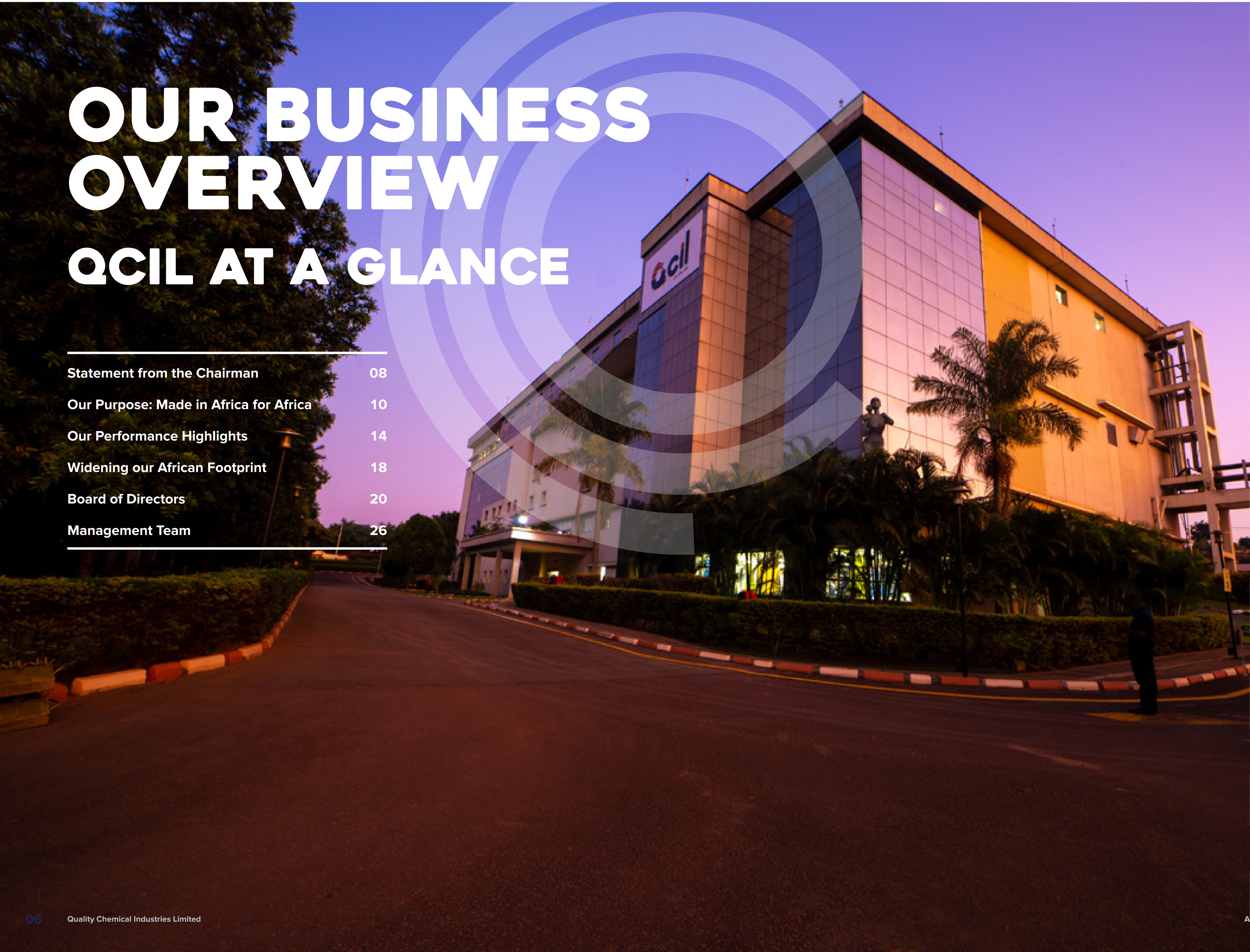
2023

Africa Capitalworks (ACW) acquired 51.18% of the issued ordinary shares of the Company from Cipla.

2024

The Company changed its registered name to Quality Chemical Industries Limited (Qcil).

1 WHO-prequalification of a product means that the product and the associated manufacturing site is compliant with the directives issued by the WHO following an assessment of the quality, safety and efficacy of the medicinal product.



OUR BUSINESS OVERVIEW

QCIL AT A GLANCE

STATEMENT FROM THE CHAIRMAN

As we publish the Qcil (formerly, CiplaQCIL) 2024 Annual Report, I am proud to address several significant milestones in the Company's development.

This year marks a significant phase in our journey, characterised by decisive action, collaboration, innovation, and resilience.

Cipla, through its subsidiaries held 51.18% in the Company. In November 2023, Africa Capitalworks acquired Cipla's controlling interest for a purchase consideration of USD25 million (ACW's Acquisition). As a result of ACW's Acquisition, the composition of Qcil's Board has changed, and the Company has begun the transition to an independent African company.

As a Chairman and Co-Founder, I and my colleagues are excited about and reinvigorated by the change and are proud of the results delivered by our team.

As part of ACW's Aquisition, Cipla and Qcil made transitional arrangements captured in three agreements, which came into effect upon the conclusion of the transaction:

Technology License Agreement (TLA), in terms of which Qcil's access to the technology required to secure our existing business and contracts remains in place. This includes the technologies with which our Lumartem, TLD and TLE400 products – which contribute a significant portion of Qcil's sales – are manufactured. Further, pursuant to both ACW's Aquisition and the TLA, technology licensing fees on these products, which amounted to over USD1.6 million in the year ended 31 March 2023, have been abolished;

Transitional Services Agreement, in terms of which Qcil's access to certain technology and databases for purposes of managing its business and establishing registrations in its own name, will remain in place for the necessary period; and

Manufacture and Supply Agreement, in terms of which we will continue to supply members of the Cipla Group with an agreed volume of products at a minimun margin for three years.

Following the change in majority stakeholder and investment partner, the Company took stock of the various aspects of its corporate identity, specifically those aspects which required updating in light of our new context.

To this end, we undertook a strategic rebranding initiative, changing our name from CiplaQCIL to Qcil. This change reflects the evolution of the Company and is aligned with the Company's strategic objectives. While our partnership with Cipla was instrumental in our growth and development, our next chapter has begun impressively and holds great promise. The new name, Qcil, introduces a new face for an organisation with a proven track record and decades of expertise. The retention of part of the old name provides an assurance that the quality, reliability, and ambition for which the Company is esteemed continues to form the basis of our governance and operations.

As I reflect on our achievements in the face of unprecedented challenges, I am struck by the dedicated efforts and hard work of our Board, Management Team, and staff. I would like to thank them for their commitment to the Company's development, even in a global environment which has presented many challenges and obstacles.

Our strong financial performance during FY23/24, marked by a substantial increase in revenue and profitability and the resumption of the payment of dividends, including the first interim dividend in the Company's history, stands as a testament to our strategic focus and operational excellence and the promise of our African ownership. Strategic initiatives have not only boosted efficiency, but also solidified our position as industry leaders in the Sub-Saharan region. Additionally, advancements in technology have further expanded our market presence, laying the groundwork for continued growth.

Our commitment to sustainability and social responsibility has led to the implementation of initiatives aimed at reducing our environmental footprint and enhancing the wellbeing of the communities in which we operate.

Looking ahead, our strategic priorities remain clear: driving innovation, expanding our African presence, and delivering long-term value to stakeholders. With a strong foundation and a clear vision, we are poised to achieve new heights of success and positively impact communities worldwide.

We appreciate your ongoing confidence in Qcil. Together, we will forge a path towards an even brighter and more prosperous future.

EMMANUEL KATONGOLE
Co-Founder and Chairman

OUR PURPOSE: MADE IN AFRICA FOR AFRICA

At Qcil, we believe that health isn't merely the absence of illness, but the vibrant pursuit of life's possibilities. In Africa, vitality and resilience are virtues we celebrate – which is why for us, it is not about surviving, it is about thriving. This is what makes us more than just medication manufacturers. We embody the spirit of living vigorously. At the heart of our commitment to scientific innovation and true wellness is our mantra, "Life after well".

Qcil provides unparallelled quality and affordable medicine to its patients.

Qcil is the largest pharmaceutical manufacturer in East Africa, and also one of the largest in Sub-Saharan Africa (SSA). We are proud to be one of the few pharmaceutical manufacturers in SSA to operate a World Health Organization (WHO), cGMP compliant facility that manufactures a range of WHO prequalified medicines for treating HIV/AIDS and malaria. Qcil supplies 14 countries and is positioned for further market expansion, with our products registered in 31 countries in Africa.

COMMITTED TO MAKING A DIFFERENCE

Qcil is committed to making the highest quality, affordable, life-saving medicines because we want people to live a long and healthy life. We see a future where good health is expected – not for the few, but for the many. That is why we believe no one should be denied access to essential medicine. We are not just about making medicine, we are about making a difference.

OUR GUIDING PRINCIPLES

Qcil's goal is to produce pharmaceutical products of the highest quality that have zero environmental impact. Qcil continues to adhere to cGMP and GLP, maintaining global and regional regulatory best practice.

MADE IN AFRICA, FOR AFRICA

Established in Uganda in 2005, Qcil emerged as the result of a dire regional need – at the time, Uganda was battling to treat HIV/AIDS and malaria patients because she lacked reliable access to affordable, quality treatment. While more than 60% of global HIV/AIDS and 80% of global malaria cases were reported in SSA, the region manufactured only 1% of the medicine required to treat patients. The Sponsors and Cipla, with support from the Governement of Uganda, partnered to establish a world class facility in Uganda to manufacture these much needed drugs. The Company has since expanded its portfolio of medicines considerably to include the two first-line WHO recommended therapies for hepatitis B and the new first-line triple combination ARV therapy (TLD).

Qcil continually strives to produce quality, affordable medicines that will meet the demands of the increasing African population. The Company's manufacturing facility operates under stringent standards which require minimal environmental impact and strict adherence to Good Manufacturing Practices (GMPs), Good Laboratory Practices (GLPs) and numerous other international regulatory standards. In addition, our facility has been expanded to increase capacity from 80 to 130 million tablets monthly. We are also exploring the production of medicine to manage the surge of Non-communicable Diseases (NCDs) and cancer in Africa. To support our growth generally and portfolio expansion specifically, we invested USD5 million at our Luzira site in our own warehouse with a 5,000 pallet capacity and commissioned a USD10 million quality control laboratory with state-of-the-art equipment. Amongst other things, the laboratory creates higher capacity for testing and supports innovation.

Qcil employs more than 350, predominantly Ugandan, permanent staff, of which 25% are female. We are an equal opportunity employer and we do not discriminate on gender, age, disability, ethnicity, religious grounds, or nationality. We take immense pride in developing and training staff to empower them and enhance their ability to deliver the best results for the business. In partnership with public universities in Africa, we have an internship programme, which focuses on science-related industrial training. The programme gives graduates valuable practical work experience.

GIVING BACK TO THE COMMUNITY

In addition to the internship programme, Qcil trains students from secondary schools within the community. We also donate medicine to non-governmental organisations to support medical camps in communities where access to treatment and quality healthcare is challenging. We are also one of the leading corporate sponsors of the Mengo Blood Bank in Uganda.

VISION

To become a centre of excellence in the manufacturing of quality, affordable medicines.

MISSION

To provide affordable and efficacious medicines in a sustainable way to improve the quality of life.

VALUES

Passionate about quality,
driven by innovation,
prioritising availability,
committed to affordability,
founded on trust.

OUR PURPOSE: MADE IN AFRICA FOR AFRICA (CONTINUED)

PRODUCT PORTFOLIO

Our role in healthcare goes beyond providing the best drugs for diseases, to equipping doctors and their patients with the latest information available, aimed at creating greater awareness to fight against the disease.

HIV/AIDS

At Qcil, we believe that everyone should have access to life-saving medication. In the crusade against HIV, Qcil manufactures medications that have revolutionised HIV treatment in Uganda, changing it from something which was previously considered a death sentence, to something which can be managed like any other chronic condition. In 2005, Qcil introduced the world's first-ever recommended 3-in-1 fixed dose combination therapy (Stavudine + Lamivudine + Nevirapine), to fight AIDS in Uganda. People on treatments can live a near normal life. We are proud to provide quality and affordable medicines to over one million Ugandans living with HIV. It is our commitment to the Ugandan people to ensure that HIV treatment is affordable and accessible to all.

ANTI-MALARIALS

At Qcil, we believe that no life should be lost – especially not to a treatable disease. In 2009, Qcil introduced a fixed dose artemisinin-based combination, composed of two active ingredients: artermether (20 mg) and lumenfantrine (120 mg). This treatment, recommended for uncomplicated malaria, was made readily available and affordable, and has saved many lives.

HEPATITIS

We believe in continued access to the highest quality medicines at affordable prices – whether a disease affects millions or hundreds. We have played a significant role in the management of hepatitis with our quality, affordable medication. Our various medicines have changed the way hepatitis B is viewed, making life with the disease not just a possibility, but a reality.

OTHER PRODUCTS

- Antibacterials
- Anti-hypertensives
- Vasodilators
- Anti-emetics
- Antibiotics
- Antidiabetics

OUR PERFORMANCE HIGHLIGHTS

FINANCIAL HIGHLIGHTS

PERFORMANCE

Revenue
265.4 bn Shs (20% up)
FY22/23: Shs 221.5 bn

Gross Profit
102.9 bn Shs (54% up)
FY22/23: Shs 67.0 bn

EBITDA
53.7 bn Shs (39% up)
FY22/23: Shs 38.7 bn

Profit after Tax
31.8 bn Shs (67% up)
FY22/23: Shs 19.0 bn

EFFICIENCY

Working Capital
123.7 bn Shs
FY22/23: Shs 101.3 bn

Current Ratio
3.9
FY22/23: 3.5 bn

Debt-Equity Ratio
0%
FY22/23: 3%

Cash Generated from Operating Activities
67.1 bn Shs
FY22/23: Shs (41.8) bn

Return on Invested Capital
18 %
FY22/23: 11%

OPERATIONAL HIGHLIGHTS

SAFETY

Zero fatalities

Lost Time Injuries
FY22/23: 1
FY23/24: 3

SUSTAINABILITY

Waste to Landfill
17.5 MT
FY22/23: 77.5 MT

Electricity (Grid)
41,558# GJ
FY22/23: 37,408 GJ

Water
15,048 KL
FY22/23: 16,887 KL

GHG Emissions
2,682# Tons
FY22/23: 2,447 Tons

 # Coresponding increase due to increase in production

CAPACITY

Utilisation
86 %

ISO Certifications
3
Nos: 9001 14001 45001

No. of Product Recalls
0
FY22/23: 0

Total Batches Released
831
FY22/23: 666

SUPPLY CHAIN

Customer OTIF
98 % Achievement
FY22/23: 90%

MANUFACTURING HIGHLIGHTS

Production Capacity Increased by
200 mn units
Capacity has risen YOY from 1,200 mn to 1,400 mn

OEE (overall equipment effectiveness) Improved YOY by
10%
FY22/23: 37%

Technology Transfer
6 products
(in cardiology, diabetes and hypertension)

OUR PERFORMANCE HIGHLIGHTS (CONTINUED)

DIVERSITY

31% of Senior Management are women

25% of Company employees are women

24HR On-site clinic

562 Workers trained

Wellness Initiatives

- Wellness Week
- Safety Week
- Annual Day
- Corporate Sports

Disability Inclusion Award from the Federation of Ugandan Employers

26,880 Training hours for workers

04 New Policies
(Graduate Trainee, Internship, ESG and Donations)

10 Graduate Trainees
in the field of Engineering, Industrial Chemistry, and Environment

112 Interns
from Makerere, Mbarara, Kyambogo, Busitema, KIU, and Ndejje Universities, and the University of Namibia

WIDENING OUR AFRICAN FOOTPRINT

Qcil has steadily increased the number of countries it supplies and its regulatory footprint.

31

Sub-Saharan African Markets

Regulatory Approvals

Qcil is focused on aggressive market expansion and has obtained approval from national regulatory bodies across numerous African countries.

The facility is approved for supply in 31 SSA countries and currently exports to 13 countries in Africa.

- Botswana
- South Africa
- Namibia
- Zimbabwe
- Mozambique
- Madagascar
- Zambia
- Angola
- Malawi
- Tanzania
- Kenya
- DR Congo
- Rwanda
- Burundi
- Ethiopia
- South Sudan
- Nigeria
- Niger
- Benin
- Ghana
- Burkina Faso
- Côte d'Ivoire
- Mali
- Liberia
- Sierra Leone
- Guinea-Bissau
- Guinea
- The Gambia
- Senegal
- Niger
- Togo

AWARDS AND RECOGNITION

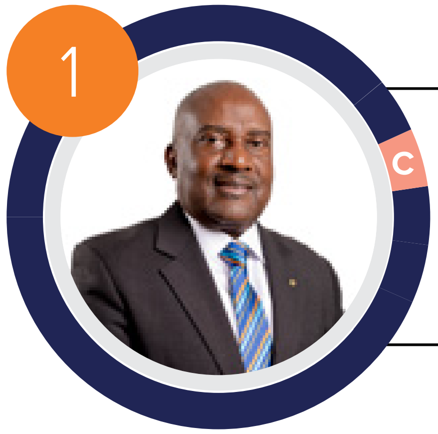
We have a robust Environmental Health and Safety Management Systems (EHS MS) based on ISO standards which forms an integral part of our business activities.

Qcil also underwent examination and certification of equipment per the Occupational Safety and Health Act and was found compliant.

FEDERATION OF UGANDA EMPLOYER AWARD FOR DISABILITY INCLUSION 2023

2023 FINANCIAL REPORTING AWARDS 2ND RUNNER UP – CONSUMER AND INDUSTRIAL PRODUCTS

BOARD OF DIRECTORS



COMMITTEES

EMMANUEL KATONGOLE (62)

CO-FOUNDER AND CHAIRMAN

UGANDAN

DATE OF APPOINTMENT:

10/06/2005 (19 years)

FREDERICK MUTEBI KITAKA (61)

CO-FOUNDER AND DIRECTOR

UGANDAN

DATE OF APPOINTMENT:

23/11/2023 (6 months)

GEORGE BAGUMA (64)

CO-FOUNDER AND DIRECTOR

UGANDAN

DATE OF APPOINTMENT:

10/06/2005 (19 years)

COMMITTEES

AJAY KUMAR PAL (42)

CHIEF EXECUTIVE OFFICER

INDIAN

DATE OF APPOINTMENT:

1/08/2021 (3 years)

BOARD COMMITTEES KEY C = Committee Chairperson

Audit and Risk Committee | Nominations Committee | Remuneration Committee

COMMITTEES

BETH MANDEL (59)

NON-EXECUTIVE DIRECTOR

AMERICAN

DATE OF APPOINTMENT:

21/12/2023 (4 months)

COMMITTEES

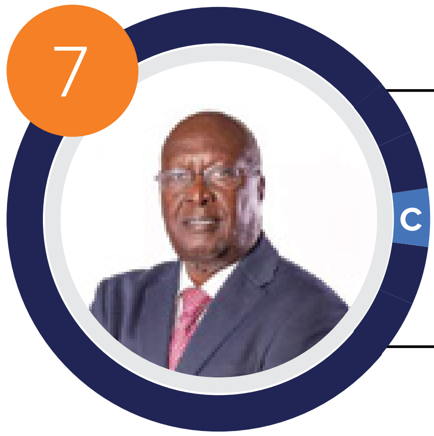
JOSEPH BALIDDAWA (71)

INDEPENDENT NON-EXECUTIVE DIRECTOR

UGANDAN

DATE OF APPOINTMENT:

17/08/2018 (6 years)



COMMITTEES

DR. PETER MUGYENYI (76)

INDEPENDENT NON-EXECUTIVE DIRECTOR

UGANDAN

DATE OF APPOINTMENT:

20/06/2019 (5 years)

COMMITTEES

STEVENS MWANJE (57)

NON-EXECUTIVE DIRECTOR

UGANDAN

DATE OF APPOINTMENT:

22/07/2019 (5 years)

BOARD COMMITTEES KEY C = Committee Chairperson

Audit and Risk Committee | Nominations Committee | Remuneration Committee

BOARD OF DIRECTORS (CONTINUED)

VUSI RASEROKA (55)

NON-EXECUTIVE DIRECTOR

SOUTH AFRICAN

DATE OF APPOINTMENT:

24/08/2023 (10 months)

GEENA MALHOTRA (60)**

NON-EXECUTIVE DIRECTOR

INDIAN

DATE OF APPOINTMENT:

27/11/2019 (4 years)

MARK DALY (44)**

NON-EXECUTIVE DIRECTOR

SOUTH AFRICAN

DATE OF APPOINTMENT:

05/09/2017 (7 years)

PAUL MILLER (59)**

NON-EXECUTIVE DIRECTOR

SOUTH AFRICAN

DATE OF APPOINTMENT:

07/07/2016 (8 years)

*** Resigned from the Board after ACW's Aquisition*

BOARD COMMITTEES KEY C = Committee Chairperson

Audit and Risk Committee · Nominations Committee · Remuneration Committee

1. MR EMMANUEL KATONGOLE

Mr Emmanuel Katongole is a Co-Founder of Qcil and was appointed Chairman in November 2013. Previously, he served as Managing Director of Quality Chemicals Limited (QCL), a pharmaceutical distribution company concentrating on animal health. He has a wealth of experience in corporate governance, strategy and business entrepreneurship. Emmanuel holds a Master of Arts Degree in Economic Policy and Planning and a Bachelor of Statistics Degree, both from Makerere University.

Emmanuel is also a member of the Initiative for Global Development (Frontier 100) – a group that brings the most successful business leaders operating in frontier markets together. He is the former Chairman of the Uganda National Oil Company, the former Chairman of Mauritius Union Assurance (U) Ltd and Chairman of the Advisory Board of London-based TLG Capital Ltd.

In April 2020, he was appointed by His Excellency the President of Uganda to chair the National Response Fund on Covid-19 Taskforce in Uganda. In February 2021, he was installed as the 5th Chancellor of Nkumba University in Uganda and was appointed as a Papal Knight by Pope Francis in June 2021.

He was the East African Winner and representative at the 2013 Ernst and Young World Entrepreneur of the Year Awards in Monte Carlo, received the 2012 Africa Business Leadership and the Africa Entrepreneurship Awards, and was a finalist for the East Africa Ernst and Young Entrepreneur of the Year 2011 Awards. He is a Rotarian who has steadily and diligently served his Rotary Club of Muyenga as director, president, country chairperson for Annual Giving, assistant governor, chairperson of the 2010/11 district conference and is now the District Governor for Rotary district 9211, which comprises Tanzania and Uganda.

He is currently serving as the Chair of the Board and Nominations Committee.

2. MR FREDERICK MUTEBI KITAKA

Mr Frederick Mutebi Kitaka is a Co-Founder and was the Chief Finance Officer at Qcil from 2000 to 2005.

Frederick is a Ugandan entrepreneur, industrialist and philanthropist with specific experience in pharmaceutical manufacturing and real estate development. He has extensive expertise in financial planning and management, economic policy, investment management and corporate governance. He holds a BSc in Accounting and Finance from the University of Buckingham (UK) and a BSc in Physics and Mathematics from Makerere University.

3. MR GEORGE BAGUMA

Mr George Baguma is a Co-Founder and was the Chief Commercial Officer and Director of Marketing at Qcil from 2000 to 2005.

George is a former Deputy Commissioner at the Directorate of Animal Resources in the Ministry of Agriculture, Animal Industries and Fisheries in Uganda. He has over 25 years of expertise in the human, animal, agriculture, and public health industries in both technical and marketing capacities. He holds a Masters Degree from Imperial College in London, a Postgraduate Diploma and a Bachelor of Science (Honors) from Makerere University.

4. MR AJAY KUMAR PAL

Mr Ajay Kumar Pal has served as the Chief Executive Officer of Qcil since August 2021. He has worked in the pharmaceutical industry for 19 years and has held various executive positions in major pharmaceutical companies over the past eight years. His career spans across three countries, Uganda, South Africa, and India.

Ajay holds an MBA from Nelson Mandela University Business School in South Africa and a Bachelor of Pharmacy, Industrial and Physical Pharmacy, and Cosmetic Sciences from Rajiv Gandhi University of Health Sciences in India.

Ajay's expertise lies in fields such as operations management, business transformation, acquisitions, maximising business profitability, strategic planning, leadership, and technology transfer. Throughout his career, Ajay has prioritised bold transformation within organisations and has successfully led and motivated teams in this respect. He served as General Manager and Senior Director at Cipla Medpro Manufacturing company in South Africa after its acquisition by Cipla in 2013, during which time he led the technology transfer of 18 new products, facilitated the company's return to profitability and the company's acquisition of Mirren Proprietary Limited in 2018.

Ajay joined Qcil as Chief Operating Officer in February 2020. Under his leadership, the Company has increased its manufacturing and distribution capacity, extended its product portfolio, and originated initiatives related to healthcare access, environmental sustainability, and ethical practices.

He is currently serving as a member of the Audit and Risk Committee.

5. MRS BETH MANDEL

Mrs Beth Mandel is a Co-founder and Managing Partner of Africa Capitalworks and Capitalworks Investment Management, a position she has held for 16 years. She also previously held positions as a Managing Director and Country Head SSA of Morgan Stanley and Founding Director of RMB Morgan Stanley.

Beth holds a Master of Science in Development Economics from New College, Oxford University (Marshall Scholar) and a BSc with high honours in Business Administration (Production Management).

She has extensive global experience in corporate finance, mergers and acquisitions, strategy and investment management.

She is currently serving as a member of the Audit and Risk Committee and Remuneration Committee.

6. MR JOSEPH BALIDDAWA

Mr Joseph Baliddawa is a former partner of PricewaterhouseCoopers Africa (PwC) and Country Senior Partner for PwC (Uganda) having spent 34 years with PwC in a variety of roles in the UK, Zambia and Uganda.

BOARD OF DIRECTORS (CONTINUED)

Joseph is a Fellow of the Association of Chartered Certified Accountants (FCCA), a Member of the Institute of Certified Public Accountants of Uganda (CPA) and a Founder Council Member of both the Institute of Certified Public Accountants of Uganda and the Zambia Institute of Chartered Accountants (ZICA). He has extensive experience in management and leadership, having served in PwC's country management, formulation and monitoring of the implementation of strategic growth plan for Africa, risk, quality and compliance standards management and financial reporting.

He is a former President of the Institute of Corporate Governance of Uganda and is currently a Board member and the Chair of the Audit Committees of the NCBA and Alliance Africa General Insurance Limited.

He currently serves as Chair of the Audit and Risk Committee and is a member of the Remuneration Committee.

7. DR PETER MUGYENYI

Dr Peter Mugyenyi is a holder of a Doctor of Science (ScD(h)) and a Bachelor of Medicine and Surgery (MB ChB). He is also a Fellow of the Royal College of Physicians of Ireland (FRCPI) and a Fellow of the Royal College of Physicians (Edinburgh) (FRCP Edin).

Peter is a paediatrician, researcher and specialist on HIV/AIDS and related conditions. His research and publications cover a wide spectrum of subjects within this field, including paediatric and adult trials, HIV resistance, HIV prevention, immunological studies including HIV vaccine trails, pharmacokinetic, molecular and epidemiological studies as well as the social and economic impact of HIV.

He was among the pioneers who introduced the widespread use of affordable ARVs in Africa, as well as the development of an effective model of ARVs in Africa and the development of an effective model for scaling up ARVs in resource-limited countries. He has also been a Principal Investigator on multiple landmark research projects funded by National Institute of Health (NIH), the European Union, WHO and the Medical Research Council (MRC).

He has served as a board member on several institutions and organisations in Africa, UK, India and the USA. Until his retirement, he was the Executive Director of the Joint Clinical Research Centre.

He is currently serving as the Chair of the Remuneration Committee.

8. MR STEVENS MWANJE

Mr Stevens Mwanje is the CFO of the National Social Security Fund (NSSF) and a Fellow of the Association of Chartered Certified Accountants (FCCA).

He holds a Master's in Business Administration from Edinburgh Business School – Herriot Watt University, a Postgraduate Diploma from the University of Leicester and a Postgraduate Diploma in Business Management from Uganda Management Institute. He undertook the Strathmore Business School Executive Programme. He has also completed several short courses on leadership, risk management, finance management, performance management and corporate governance.

Previously, he served as the Head of Sales and Operations at NSSF, Head of Commercial Decisions – Bank of Africa, Chief Accountant and Head of Internal Controls at Allied Bank International, Uganda.

He is currently the Chairperson of the Board Audit Committee of the Entrepreneurs Financial Centre (EFC) and serves on the Board of Kampala Club Limited. He is also a member of the Rotary Club – Kampala North.

He is currently serving as a member of the Audit and Risk Committee.

9. MR VUSI RASEROKA

Mr Vusi Raseroka is an accomplished and highly experienced private equity investment professional with over 30 years of experience in financial services, corporate finance, financing, and investments across the African continent. He is passionate about investing in Africa and has transacted across multiple jurisdictions on the African continent. He is an unlisted investments specialist and fund manager with extensive private equity, infrastructure, and project finance (equity and debt) knowledge, skill and expertise.

Vusi is employed by the Public Investment Corporation (PIC) SOC Limited as a Fund Principal in the Unlisted Investments Division where he heads the Developmental Investments Fund for Africa ex SA. Prior to this, he was a Portfolio Manager, Economic Infrastructure. Thereafter he became an Associate Fund Principal and then a Fund Principal in the Private Equity division, all within the PIC.

Prior to joining the PIC, Vusi was employed by the Development Bank of Southern Africa (DBSA), in the International Finance Division. Prior to joining the DBSA, he was the Head of Privatisation and Restructuring at the Public Enterprises Evaluation and Privatisation Agency in Botswana. Prior to this, he held various banking and corporate finance roles in Botswana.

Vusi holds a BCom degree in Accounting from the University of Botswana, is a Fellow of the Association of Chartered Certified Accountants (FCCA) (UK) and is a member of the Institute of Directors of Southern Africa.

He is currently serving as a member of the Remuneration Committee.

MANAGEMENT TEAM

AJAY KUMAR PAL
CHIEF EXECUTIVE OFFICER

FREDERICK ANDREW KAKOOZA
CHIEF FINANCE OFFICER

SARAH MUSUMBA
HEAD OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

PEACE NAMARA
ACTING COMPANY SECRETARY AND HEAD OF LEGAL AFFAIRS

ROHIT DATAR
HEAD OF BUSINESS DEVELOPMENT AND PRIVATE MARKET

DR KIKUNDWA EMMA
COMPANY PHARMACIST

DR FRANCES PHILOMENA NAMATOVU
HEAD OF REGULATORY AFFAIRS AND PHARMACOVIGILANCE

PANDA RAMAKANTA
HEAD OF OPERATIONS

HARRISON KIGGUNDU
HEAD OF HUMAN RESOURCES

MAHADEV MANDHARE
HEAD OF SUPPLY CHAIN

ATUL VADEPALI
HEAD OF QUALITY CONTROL AND QUALITY ASSURANCE

OUR OPERATING ENVIRONMENT

STATEMENT FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholders

The FY23/24 year has been one of solid success for Qcil in a difficult and often unpredictable macroeconomic environment. Among the global challenges were heightened geopolitical tensions in Europe and the Middle East, a surge in inflation, and the upward trajectory of fuel and commodity prices. Notwithstanding facing challenges like a more stringent financial climate, Uganda displayed her resilience, posting impressive economic growth in the second half of 2023, with agriculture, industry, and services expanding by 4.4%, 4.8%, and 8.3%, respectively[1].

I am delighted to share that we have shown remarkable resilience against the challenging macroeconomic environment and grown stronger through the transition, achieving a record preformance. Our unwavering dedication to supporting African patients has enabled us to introduce new products and ensure their availability through local manufacturing and a reliable supply chain.

We are guided by our purpose of nurturing the vibrant African spirit with pharmaceutical innovation that goes beyond wellness and enriches Africans' expression of natural vigour. We aim to ensure access to new products, strengthen availability by producing the highest-quality products locally, and innovate every aspect of the pharmaceutical value chain to enable manufacturing in Africa for Africa.

Our financial performance this year has been particularly strong, with revenue increasing by 20% on the previous year, accompanied by significant margin improvements. This growth has been driven by the expansion of our market presence and our relentless focus on meeting and exceeding customer expectations and operational excellence. Our record performance reflects our continued efforts in procurement, cost containment, and operational efficiency initiatives.

For a detailed review of our financial performance, please refer to the Report of the Chief Finance Officer on page 80.

The rapidly evolving healthcare landscape demands innovative strategies to drive growth and this will require a continued effort to maintain robust relationships and strategic partnerships. Given our Ugandan roots and strong support for local manufacturing, we are well positioned to make the most of opportunities that may arise in our immediate environment and are committed to continue prioritisation of our regional access.

ACW's Aquisition is a significant step forward as we focus on local manufacturing and bolster our capacity for growth. From a sales perspective, orders from sovereign customers, institutional bodies and the Ugandan government have increased in FY23/24, while contract-manufacturing revenue declined due to decreased demand from Cipla Medpro. However, Qcil's three-year Manufacturing and Supply Agreement with Cipla Medpro is now in effect.

For an explanation of ACW's Aquisition, please refer to the Statement from the Chairman on page 8.

Last year, the Company sold 14.85 million[2] treatments of HIV medicines, covering more than 400 thousand patients, and sold more than 32 million treatments for malaria.

Our short- and long-term outlook is underpinned by four main areas, namely:

i. delivering sustainable growth by prioritising market access, expanding our existing customer base, and fostering a robust private market that emphasises locally produced and traded goods;
ii. achieving cost leadership by prioritising operational cost and material margin optimisation;
iii. expanding our portfolio by introducing products in anti-infective, diabetes, cardiovascular, and OTC categories through product development, partnerships, and technology acquisition; and
iv. growing local manufacturing.

Our dedication to sustainability and corporate social responsibility has also been a foundation to our strategy. We have implemented initiatives aimed at reducing our environmental impact, promoting social equity, and enhancing the wellbeing of our communities. These efforts are integral to our long-term success and reflect our belief that businesses have a crucial role to play in addressing global challenges.

The achievements of FY23/24 would not have been possible without the hard work, passion, and dedication of our exceptional team. Their unwavering commitment to excellence and their ability to adapt and innovate in a dynamic environment have been instrumental in driving our success. I am deeply grateful for their contributions and proud of what we have accomplished together.

Looking ahead, we are excited about the future and the opportunities that await us. Embodying the Company's values, we remain obsessed with quality and will continue to provide access to new products and ensure availability through local manufacturing and a robust supply chain by continuously driving innovation. I thank you for your continued support and trust. By playing a transformative role in the healthcare industry and prioritising shareholder value, we aspire to shape a prosperous future.

AJAY KUMAR PAL
CEO

[1] *Africa Development Bank Group, 2023, Country Focus Report 2023 Uganda.*

[2] *Averaged to a most sold pack size.*

OUR OPERATING ENVIRONMENT

HOW WE NAVIGATE THE WORLD AROUND US

MACROECONOMIC ANALYSIS

Uganda's annual GDP growth rate is estimated at approximately 5.5%. This growth reflects ongoing economic activities and development projects despite various global economic challenges. The growth is driven by sectors such as, *inter alia*, agriculture, services, and industry.

Inflation remained at levels below the target of 5%. In May 2024, inflation was at 3.6%, resulting in an average of 3.2% over the preceding 12 months. The Central Bank rate of 10.25%, was maintained at levels above 9% to keep inflation within the target levels.

In FY23/24, the Shilling depreciated against the US Dollar by approximately 5.1%, due to strong domestic demand, seasonal factors and the outflow of offshore funds seeking higher yields.

Across Africa, the macroeconomic landscape showed signs of resilience and cautious optimism amid various challenges. Africa's real GDP growth slowed to 3.1% in 2023, down from 4.1% in 2022. However, growth is projected to rebound to 3.7% in 2024 and further to 4.3% in 2025, driven by improvements in global economic conditions and effective policy measures.

The FY23/24 year saw development in the regulatory landscape of the African continent with Rwanda signing an agreement with the African Union Commission to host the headquarters of the African Medicines Agency (AMA) in Kigali. AMA is a specialised agency of the African Union (AU) whose focus is to enhance access to safe, quality, and efficacious health products in Africa. Among several roles, it is expected that the agency will promote local pharmaceutical manufacturing, coordinate joint reviews of clinical trials for vaccines, as well as seek out and address substandard and falsified medicines in the African pharmaceutical supply chains.

As per IQVIA, African pharmaceutical sales reached USD25 billion in 2022 and are expected to grow at CAGR of 6%. The largest contributing countries in this respect are Egypt, Nigeria and South Africa.

The above summary highlights the ongoing economic opportunities and challenges faced by Qcil as it navigates global economic conditions and domestic fiscal policies.

STAKEHOLDER RELATIONSHIPS

ENGAGING WITH OUR STAKEHOLDERS

Our business activities and reputation are directly and indirectly impacted by our stakeholder relationships. By proactively engaging with them, our business strategy comes alive as we manage and respond to social expectations, minimise reputational risk and influence the environment in which we work. We have set out herein the basis of engagement with each of our stakeholders.

HEALTHCARE PROFESSIONALS AND CUSTOMERS

Engagement

Monthly/annually

OUR EMPLOYEES

Engagement

Weekly/monthly/quarterly/annually

SHAREHOLDERS AND INVESTORS

Engagement

Half yearly/annually need based

OUR COMMUNITIES

Engagement

Needs based – CSR activities

SUPPLIERS AND SERVICE PROVIDERS

Engagement

Monthly/quarterly/annually

CONSULTANTS AND BUSINESS PARTNERS

Engagement

Monthly/needs-based

GOVERNMENT AND PHARMACEUTICAL REGULATORY BODIES

Engagement

Commercially determined/needs-based

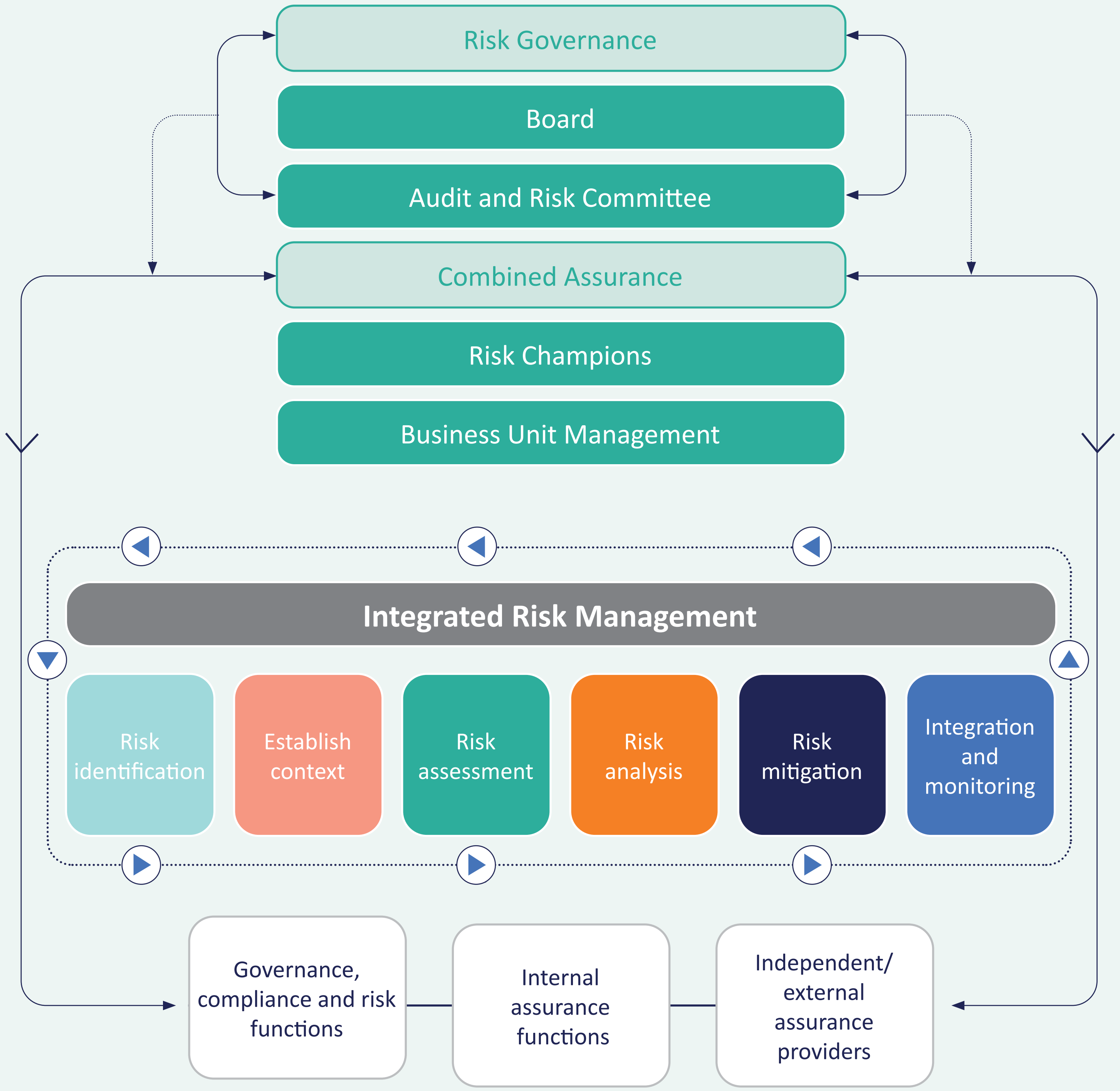
By engaging with our stakeholders, we are able to understand their expectations, and develop collaborations that encourage progress and add value to all

STAKEHOLDER CATEGORY	KEY ASPECTS	MODES OF ENGAGEMENT	CAPITALS IMPACTED	ASSOCIATED RISKS	IMPACT OF ENGAGEMENT
SHAREHOLDERS AND INVESTORS	• Financial performance • Non-financial performance – Sustainability and ESG • Responsible investment • Ethical business conduct • Long-term business growth • Risk management • Corporate governance • Brand management	Board meetings, conferences, one-on-one meetings, annual reports, press releases, and company website.		• Financial • Operational • Market risks • Reputational • Legal • Strategic • Supply chain • Environmental & social risks • Intellectual property	Increasing shareholder and investor confidence especially at a time of transition from CiplaQCIL to Qcil. Our market perception and reputation is greatly hinged on our regular engagement with shareholders and investors as we adhere to good governance practices and address their concerns.
OUR EMPLOYEES	• Health and safety • Training and learning • Career progression • Growth opportunities • Recognition • Job security • Fair remuneration • Enabling work culture • Work-life balance	Town halls, policies, training and development, newsletters, online surveys, CSR activities.		• Compliance and ethical risks • Occupational health and safety risks • Psychosocial risks • Environmental risks	During the year, despite having gone through a transition period, the Company saw an increase in production and is currently going through a culture change with one of the targets thereof being improved employee experience and increased productivity.

STAKEHOLDER RELATIONSHIPS (CONTINUED)

STAKEHOLDER CATEGORY	KEY ASPECTS	MODES OF ENGAGEMENT	CAPITALS IMPACTED	ASSOCIATED RISKS	IMPACT OF ENGAGEMENT
OUR COMMUNITIES	• Contributions to community welfare • Adherence to community expectations and needs	CSR projects and awareness programmes		• Business risks • Climate risks	Through our CSR activities, we have built trust, created shared value for both the community and the Company, and enhanced our reputation as we contribute to the sustainable development and long-term success of the markets we serve. This is evidenced through our contributions to: • The Rotary districts convention • Blood banks in Uganda • Medical camps • Local community engagements e.g. malaria day events.
SUPPLIERS AND SERVICE PROVIDERS	• Contract development and procurement • Material sourcing • Sustained business growth • Ethical business conduct • Timely payment of invoices	Procurement meetings, supplier performance evaluation, meetings with suppliers		• Operational risks • Regulatory risks • Financial risks • Reputational risks • Environmental risks	Our supply chain is more resilient and has the ability to develop contingency plans and strategies to mitigate disruptions and ensure continuity of supply. This was evidenced with the continual supply of our raw materials in spite of the Red Sea crisis. We continue to improve our collaboration with our suppliers as we align both our business and sustainability goals, thus building long-term partnerships for sustainable development.
CONSULTANTS AND BUSINESS PARTNERS	• Regulatory compliance • Disclosures • Corporate governance • Partnerships for CSR project implementation	Partner meetings, performance evaluation, meetings, forums, legal filings		• Strategic risks • Legal and regulatory risks • Operational risks • Reputational risks	We have tapped into the specialised expertise and industry knowledge of our partners and consultants and gained insights, advice and guidance on a wide range of issues e.g. technological advancements and regulatory compliance from WHO, Uganda's National Drug Authority (NDA), USE, Grant Thornton etc.
PATIENTS, HEALTHCARE PROFESSIONALS AND CUSTOMERS	• Accessibility and affordability of medicines • Product quality and safety • Customer experience • Supply chain management	Customer meetings and feedback, performance review meetings, customer satisfaction surveys		• Drug safety • Quality and efficacy • Regulatory and compliance • Reputational risks • Financial risks	We have gained valuable insights into our customers' needs and preferences which have helped inform our offerings to ensure they add maximum value to the medicine users. Through our regular engagement with healthcare professionals, we are able to build trust, address concerns transparently and uphold ethical standards as a trusted partner in healthcare. We also solicit their feedback to enable us to continuously evolve and improve our products.
GOVERNMENTS AND PHARMACEUTICAL REGULATORY BODIES	• Regulatory compliance • Disclosures • Corporate governance • Partnerships for CSR project implementation	Legal filings, forums		• Operational risks • Reputational risks • Financial risks	We strive to stay abreast with evolving regulations, guidelines and requirements thus reducing the risk of regulatory violations and penalties thereof. This also provides our shareholders and investors with the confidence that we are proactive with managing risks and ensuring compliance.

RISK MANAGEMENT



RISK GOVERNANCE AND OVERSIGHT

Qcil's governance framework is informed by the relevant Ugandan laws, with the Board of Directors playing a key role in ensuring that the Company has an effective risk management system.

All employees are responsible for the management of risk, with the ultimate responsibility residing with the Board.

The Board has delegated its risk-related responsibilities primarily to the Audit and Risk Committee, the mandate of which includes evaluating key risk areas and ensuring the process for risk management and systems of internal control are implemented.

The framework and methodology for risk management is set out in the Company's Risk Policy, which has been approved by the Board. The Company identifies new, changing and emerging risks to the achievement of its business purpose and strategic objectives. Identified risks are assessed at various levels of operation to appreciate their effect (positive or negative) to the achievement of objectives. The assessment of risk includes analysis and evaluation of the risk to appreciate its significance in terms of the likelihood of occurrence and potential impact, which informs decision-making. A materiality assessment is done for all risks as an additional measure for prioritisation of risk responses to optimise resource allocation. In selecting and implementing a risk response, consideration is given to the business context, costs and benefits, stakeholder obligations and expectations.

The management of risk at the department level is tasked to a Risk Champion who coordinates with the Principal Risk Champion on risks associated with his/her function and ensures that appropriate controls are deployed to mitigate risks. The Principal Risk Champion reports quarterly to the Audit and Risk Committee. All departments and units maintain a risk register which is updated quarterly. The status of mitigation plans is tracked continuously to ensure adequate implementation of the risk response strategies.

The Company has an Internal Audit function which provides independent and objective assurance on the effectiveness of internal controls in place to manage risks.

Outlined below are key risks that had significant effect on the Company during the year:

1. CUSTOMER DEFAULT/DELAYED PAYMENTS FROM CUSTOMERS

Occasional delays or defaults in payments which disrupt cash flows and affect the overall financial health and operations of the Company.

MITIGATION

- Setting credit exposure limits for the various geographies and customers.
- Payments in advance or with supporting Letters of Credit or bank guarantee prior to supply.
- Receivables ageing analysis.

2. CYBER SECURITY

Pharmaceutical companies are a constant target for cybercriminals and ransomware attacks due to the sensitivity of critical data and heavily digitalised ecosystems. Failure to insulate the Company's operations from cybercrime can result in financial losses and business interruptions.

MITIGATION

- Adequate resourcing and training of the internal IT team charged with implementing information system process and data protection capabilities.
- Outsourced monitoring and management of security devices and systems.
- Internal audit reviews by specialists are undertaken to provide assurance on internal controls and security measures.

RISK MANAGEMENT (CONTINUED)

3. PRODUCT QUALITY AND EFFICACY

Failure to meet quality standards can affect the product quality and adversely impact the health of patients.

MITIGATION

- Adoption of a robust quality management system throughout the manufacturing process aimed at enhancing efficiencies, improving quality performance, tracking non-conformance issues and managing deviations, in addition to having standard operating procedures to guide staff in the execution of their duties.
- Regular trainings are conducted to keep staff informed of changes made in manufacturing and quality policies, particularly regarding cGMP and data integrity.
- Undertaking audits on people, processes and systems to highlight deficiencies ensures that systems are robust and comprehensive.
- Implement corrective actions aimed at improving processes from end to end.
- An effective pharmacovigilance system.

4. NON-COMPLIANCE WITH LAWS AND REGULATIONS

Failure to meet the various legal, regulatory and governance requirements (compliance obligations) as well as standards of good corporate governance can impact the company operations.

MITIGATION

- A mechanism for identifying, monitoring, tracking and reporting on compliance with all regulatory and statutory obligations is in place through a compliance management tool.
- Training of staff and awareness of regulatory obligations is undertaken in addition to having standards of procedures aligned with regulatory requirements.
- Regular engagement with regulatory authorities.

5. ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Failure to limit adverse environmental impact, deliver societal value and operate in an ethical manner can have negative consequences on the Company's reputation, operations, performance and long-term sustainability. Safety at the workplace and the impact of climate change on the environment and the community where we operate are acknowledged as an integral part of the business.

MITIGATION

- An EHSMS, which enables independent and timely identification and assessment of all EHS risks and prioritises implementation of mitigation measures.
- An ESG Policy with supporting Standard Operating Procedures (SOPs) is in place to guide staff.
- All SOPs implemented are in line with ISO management systems guidelines on managing environment, health and safety in our operations.
- Periodic internal and external audits are undertaken to provide assurance on compliance with existing laws and the adequacy of internal controls to mitigate ESG risks.
- The Company has set sustainability targets aimed at reducing energy consumption, waste to the landfill and water consumption.

6. SUPPLY CHAIN DISRUPTIONS

Supply chain disruption poses significant risks that can impact production, regulatory compliance, costs, and ultimately patient health.

MITIGATION

- A well-defined procurement policy is in place
- Enhancing supply chain resilience through development of alternate vendor sourcing for critical APIs and intermediates.
- A stock norm policy is in place to mitigate the impact of any dynamic changes in consumption patterns of customers.
- Rigorous safety stock level checks are regularly tracked for all raw materials to ensure they were in line with the manufacturing plan.

7. GEOPOLITICAL VOLATILITY

Routine business activities are vulnerable to geopolitical risks such as political unrest and war, which significantly impact global supply chains. Disruptions in major transport routes have the potential to affect the movement of essential goods and services thus affecting manufacturing and delivery timelines.

MITIGATION

- Securing receivables through the credit policy, letters of credit, bank guarantees or advance payments prior to supply.
- Close monitoring of geopolitical developments by in-country agents to advise on imminent impediments or disruptions.
- Prioritising supply and monitoring to prevent stock-outs of APIs and intermediates.

8. PRICING, COMPETITION AND BUSINESS MODEL PRESSURES

The Company is heavily dependent on government and donor agencies which poses a risk in the event that there are funding policy, economic, personal or political changes.

Most of the products manufactured by the Company fall under public procurement which compels the Company to adopt price control strategies in a bid to remain competitive. Accessibility to our products is material to our long-term business sustainability.

Manufacturing expansion requires upfront capital investment.

MITIGATION

- Prioritising customer centricity and focusing on building relationships based on customer expectations and preferences.
- Securing long-terms government/agency contracts
- Diversification of market segment.
- Competitor analysis prior to launching of new products to enhance product viability.
- Expanding product portfolio.
- Adopting dynamic product pricing strategies.
- Each investment case requires extensive financial review and approval prior to implementation.

9. FINANCIAL RISKS

Financial capital is fundamental as it underpins all aspects of our business, from innovation and operational sustainability to regulatory compliance, reputation, ethical practices, environmental and social impact, and growth. There is a risk of unexpected losses due to fraudulent activity by internal or external actors.

MITIGATION

- Instituting strong internal controls, checks and balances, and adopting technology to support the continuous monitoring of risk.
- Regular audits to ensure that internal controls are effective.
- Implementing policies such as the whistleblowing policy, anti-bribery and corruption policy and code of conduct, which are aimed at promoting transparency and ethical business practices.

QUALITY MANAGEMENT

OVERVIEW OF THE QUALITY MANAGEMENT SYSTEM

At Qcil, we are dedicated to producing high-quality products in a facility that meets both national and international standards, including cGMP and ISO 9001:2015. Our compliance is overseen by various regulatory bodies, such as the WHO, NDA and SAHPRA.

To ensure consistent quality, we have implemented a robust Quality Management System (QMS) that integrates Quality Assurance (QA) principles into every batch we produce. Our internal policies, processes, and procedures are meticulously documented to ensure we meet customer needs effectively.

The QA and Quality Control (QC) departments are chiefly responsible for ensuring and upholding product quality throughout all operations. This includes systematic sampling, testing, validating, monitoring, and auditing of all materials, facilities, and procedures that impact product quality.

PHARMACOVIGILANCE

We have a stringent global pharmacovigilance system to detect and assess any adverse effects of our medicines on patients. A comprehensive approach covering redress of drug safety-related complaints and following standard operating processes assures the safety of our products to an extent beyond that which is required by law. In the event of any adverse effects, patients can approach us through several channels, including a dedicated phone line and email.

- Qcil field teams are trained on the importance of patient health and safety. Our pharmacovigilance team monitors relevant trends and has access to the latest learning tools to stay informed about industry developments and to ensure our products have a favourable risk-benefit profile.
- During the year under review, we achieved 99.9% compliance with those regulations mandating the reporting of adverse events to the regulatory bodies. We also successfully underwent an inspection from the NDA, among others, with no critical findings.

HIGHLIGHTS

01 SUCCESSFUL REGULATORY INSPECTIONS WITH NO CRITICAL OBSERVATION CITED:

- ZAZIBONA
- NDA PV
- NDA GMP

02 ZERO PRODUCT RECALLS:

- Indicates robust QA measures and vigilant monitoring within processes.

03 SUCCESSFUL INSTALLATION OF NEW MACHINES:

- ICP-MS
- LCHR-MS
- Horizontal Autoclave

04 TOTAL OF 831 BATCHES APPROVED AND RELEASED IN FY24

- 165 batches more than FY22/23

HOW WE CREATE VALUE

BUSINESS MODEL

DRIVERS

VISION

To become a centre of excellence in the manufacturing of quality, affordable medicines

OPERATING ENVIRONMENT

Market trends, local manufacturing, continental development, regulatory demands

STAKEHOLDER DEMAND

Balancing the interests of internal and external stakeholders

OPPORTUNITY AND RISK

Leveraging opportunities and managing risks

INPUTS

MANUFACTURING

- One of few globally accredited manufacturing facilities
- Investment in the latest technologies
- Focusing on developing and introducing new products
- Robust supply chain

HUMAN

- Enhancing employee engagement by prioritising employee wellbeing
- Ensuring health, safety and wellbeing of employees
- Building employees' capabilities and competencies to innovate and drive the Company's objectives
- Culture review and transition management

SOCIAL AND RELATIONSHIP

- Strengthening stakeholder relationships through regular engagement
- Strong corporate governance framework
- Support for local communities through corporate social responsibility

NATURAL

- Commitment toward carbon and water neutrality and zero waste-to-landfill status for the manufacturing facility

FINANCIAL

- Diligent capital allocation
- Strong operating profit and cash flow

VALUE CHAIN ACTIVITY

PORTFOLIO

Product acquisition, development

REGISTRATION

Product registration in various markets

MANUFACTURING AND SUPPLY CHAIN

1. Procurement
2. Manufacturing
3. Distribution

OUTPUT

COMMERCIAL SALES

Trusted medicines for local and regional sales

MANUFACTURING

Local production of HIV and malaria treatment

SDGs

Good health and wellbeing | Quality education | Gender equality | Decent work and economic growth | Clean water and sanitation | Industry, innovation and infrastructure | Responsible consumption and production | Climate Action

OUTCOME

MANUFACTURING

- Regular increase in efficiency and margin
- Capacity increases

HUMAN

- Staff employed – 362 permanent, 220 on contract
- Attrition – 4%
- Salary bill – Shs 26.2 billion (FY22/23: Shs 24.5 billion)
- Diversity ratio – 25% Female; Management 31% Female
- Occupational fatality – Zero fatalities during the year

SOCIAL AND RELATIONSHIP

- Taxes paid – Shs 15.4 billion (FY22/23: Shs 8.6 billion)
- CSR – 6 medical camps at a cost of approximately Shs 50 million
- Graduates trained – 10 graduates
- Internships provided – 112 interns

NATURAL

- Carbon reduction – GHG emissions for FY23/24 increased by 9.6% from FY22/23 due to higher levels of productivity
- Water reduction – water consumption reduced by more than 11% in FY23/24 as compared to FY22/23
- Zero waste-to-landfill – 70% reduction in waste-to-landfill in FY23/24 compared to FY22/23

FINANCIAL

- Proposed dividend – Shs 20.8 billion (FY22/23: Shs 9.1 billion)
- Return on invested capital – 18% (FY22/23: 11%)
- Free cash flow – Shs 67.1 billion (FY22/23: Shs 41.8 billion)
- Current ratio – 3.9 (FY22/23: 3.5)

REACHING THE LAST MILE

Qcil's strategy delineates our plan to move, grow and prosper within the competitive healthcare industry and the market at large. At Qcil, we are committed to our vision of becoming the centre of excellence in the manufacturing of quality, affordable, and innovative medicines in a sustainable way.

We aim to achieve this through a well-defined strategy that focuses on sustainable growth, cost leadership, portfolio development and balanced investment.

SUSTAINABLE GROWTH:

- Market access: Replicate our Uganda business model in other countries
- Customer base penetration: Grow the current customer base through differentiated products of consistent quality
- Build private market segment in the region

COST LEADERSHIP:

- Continue to focus on optimising operational cost and material margin

PORTFOLIO DEVELOPMENT:

- Using selective R&D, build a portfolio of products which will drive growth
- Licensing
- Add technology partnerships

BALANCED INVESTMENT:

- Direct future investments towards new products and capacity to create access to treatment for other diseases

CREATING A SUSTAINABLE FUTURE

Our sustainability strategy is anchored in our mission to provide affordable and effective medicines to improve people's quality of life in the communities in which we operate. The strategy addresses two main objectives: how we reduce the impact of our operations on the environment (environmental sustainability) and how we contribute to the shared vision of our society (social sustainability).

IN ENVIRONMENTAL SUSTAINABILITY, WE FOCUS ON FOUR AREAS:

01 Carbon emission: In respect of Scope 1 emissions, we are aspiring to achieve carbon neutrality by 2030

02 Water consumption: We are aiming to reduce the consumption of blue water and aspiring to achieve water neutrality by 2028

03 Land pollution: We are focused on reducing waste generated by our operations which goes to landfill and aspiring to achieve zero waste-to-landfill by 2025

04 Wastewater treatment: We are applying safe discharge targets established by the antimicrobial resistance industry (AMR)

CARBON

To achieve decarbonisation goals, we are actively working on an initiative to reduce energy usage and replace energy sources with renewables. We are in the process of implementing a project called CRP (condensate recovery project), which will reduce the energy required to heat water and convert it into steam. We are also reviewing various other renewable energy projects.

Between FY22/23 and FY23/24, our GHG emissions increased by 9.6% due to an increase in production.

WATER

As part of our water stewardship strategy, we have been decreasing our usage of blue water by (i) reducing water consumption and (ii) increasing the share of recycled and reused water. We will continue to invest in opportunities to recycle and reuse water, harvesting rainwater and recharge boreholes to conserve water, wherever it is legally permitted.

Between FY22/23 and FY23/24, the consumption of blue water reduced by more than 11%.

WASTE

Our strategy is to achieve zero waste-to-landfill for our manufacturing operations by 2025 by focusing on reducing, repurposing, and recycling. In FY23/24, we constructed a waste segregation facility to facilitate this objective.

Between FY22/23 and FY23/24, the waste to landfill was reduced by more than 77%.


Scrap store

CREATING A SUSTAINABLE FUTURE (CONTINUED)

SOCIAL SUSTAINABILITY

Critical to Qcil's existence is its social sustainability as it directly impacts the Company's ability to operate effectively, contribute positively to society and retain its social licence to operate (reputation).

Through our sustainability strategy, we create value for all our stakeholders and our commitment is seen through three main impact areas:

- Patient centricity;
- Human capital attraction, development and retention; and
- CSR.

By **focusing on the patients**, our products are developed and manufactured to improve people's health and quality of life. We ensure that our products are safe for patients, and that their impact on the environment is minimal by implementing rigorous QC measures, as well as adopting sustainable packaging solutions to reduce waste and shrink our environmental footprint. By embedding patient wellbeing into our core business and sustainability strategies, we are able to ensure a consistently positive impact from our business activities.

At Qcil, **human capital** is an integral part of our business operations and our Human Resources department has a multifaceted role to play in attracting, developing and retaining the right talent, as well as maintaining a positive organisational culture and active employee engagement to drive operational excellence. We also run annual graduate trainee programmes and internship programmes and through our CSR three-fold (health, education and environment) programme, we support different schools and meritorious students to access quality education. During the year, 10 graduate trainees were onboarded in the production, engineering, stores/warehouse, packing, QC, and QA departments. Through our internship programme, we also trained over 112 students from various universities in and around the region.

Similarly, we have a robust learning and development programme through which staff are trained throughout the year in their respective fields of study. This facilitates the Company's compliance, operational efficiency and competitive advantage, maintaining high-quality standards, adoption of new technologies, innovation, enhancing employee performance, and supporting leadership development.

At Qcil, we are committed to employee health and wellbeing and, as such, we see to it that multiple preventative measures are in place to ensure employee health, wellbeing and safety. We conduct annual medical checks for all permanent and temporary staff. Coupled with the annual medical checks is the wellness week, during which the importance of good health and wellbeing, nutrition, financial literacy, games and targeted medical checks are emphasised.

Through **our CSR Programme**, we actively contribute to the health and wellbeing of people in the community by engaging in health camps, blood drives, and community health programmes aimed at addressing local health issues. During the year, we participated in six medical camps where 4,617 doses of anti-malaria medication were donated to local communities in Uganda. We donated approximately Shs 55 million in cash to our CSR core causes (health, education and environment). We also actively participated in the annual seven-day antimicrobial resistance conference and awareness week under the National One Health Platform as well as the Uganda Biodiversity Symposium in partnership with the Buganda Kingdom to accelerate community-driven biodiversity conservation.

OUR MAIN SUSTAINABILITY TARGETS

Our four focus areas of impact are:

CARBON NEUTRALITY BY **2030**	WATER NEUTRALITY BY **2028**	ZERO WASTE TO LANDFILL BY **2025**	WASTE WATER TREATMENT **CONTINUE COMPLYING WITH AMR STANDARDS**

ALIGNMENT TO SDGs:

Sustainability is embedded in our Company strategy, and we strive to ensure that each part of our business activities contributes to our overall sustainability agenda.

Our commitment to ESG is reflected through the support from our Board of Directors, the Board level Committees and leadership of the Company. The Board has defined our ESG priorities, set our direction and is charged with monitoring our ESG progress. The Company is committed to advancing the SDGs, a global framework for driving progress toward a more sustainable future. Advancing the SDGs is critical to our business activities and we have therefore aligned our ESG strategy to the SDGs.

Specifically, our impact is reflected through eight SDGs that we have identified as material to the success of our business operations, namely:

3 GOOD HEALTH AND WELL-BEING

SDG 3 – GOOD HEALTH AND WELL-BEING

- Our approach in enforcing our patients' rights through enabling greater access to medecine in the region
- Provide access to first line treatment for HIV/malaria through local manufacturing
- Community health screening through CSR

4 QUALITY EDUCATION

SDG 4 – QUALITY EDUCATION

- We conduct trainee programmes
- We run internship programmes for pharmacy students
- We support schools and meritorious students through our CSR activities

5 GENDER EQUALITY

SDG 5 – GENDER EQUALITY

- We are an equal opportunity employer

6 CLEAN WATER AND SANITATION

SDG 6 – CLEAN WATER AND SANITATION

Our effluent plant treats 100% of the water generated by the factory in accordance with the National Environment Management Authority (NEMA) prescribed standards and 15% of the treated water is reused in our wash areas and to irrigate our green belt

8 DECENT WORK AND ECONOMIC GROWTH

SDG 8 – DECENT WORK AND ECONOMIC GROWTH

- We comply with applicable labour laws
- Our comprehensive HR policy supports workers rights and advocates for safe working environments
- We comply with and are 1SO 45001:2018 Occupational Health and Safety Management System certified

OUR MAIN SUSTAINABILITY TARGETS (CONTINUED)

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

SDG 9 – INDUSTRY, INNOVATION AND INFRASTRUCTURE

- We have invested 20% of our capex in technologies to improve the environmental and social impact of our products and processes

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SDG 12 – RESPONSIBLE CONSUMPTION AND PRODUCTION

- We have set a target of reaching zero waste-to-landfill by 2025
- We monitor toxic elements in our drug substances
- 32% of our waste is recycled, recovered and reused
- We have set targets to reduce our yield losses

13 CLIMATE ACTION

SDG 13 – CLIMATE ACTION

- We actively monitor our climate risk
- We have developed targets and strategies to become carbon neutral by 2030

PORTFOLIO DEVELOPMENT

In line with our strategic priorities, we continue to diversify our portfolio. In the last year, we have succesfully registered six new products in the Ugandan market. The products are in the following therapeutic categories: anti-hypertensive, anti-infectives, anti-malarials, reproductive health and anti-emetics.

- **Artemether/Lumefantrine** 80/480 mg
- **Ciprofloxacin** 500 mg tablets
- **Sildenafil** 50 mg tablets
- **Metformin** 1,000 mg XR tablets
- **Amlodipine** 5 mg tablets
- **Ondansetron** 4 mg tablets

CAPITAL REVIEWS

HUMAN CAPITAL

HEAD OF HUMAN RESOURCES MESSAGE

OUR DESIRED CULTURE

Qcil's desired organisational culture is characterised by an unwavering commitment to quality and excellence, supported by a collaborative, respectful and innovative environment that prioritises employee wellbeing, integrity, sustainability and continuous improvement.

We also recognise long-serving employees and deserving employees who deliver breakthrough results by the CEO's Award, Employee of the Month Award, Idea Champions, Employee of the Year Award, Safety Champions, and Sports Personalities.

We are proud to report that Qcil won the Diversity Inclusion Award from the Federation of Uganda Employers' Survey in 2023.

STRATEGIC FOCUS AREAS

1. HUMAN RESOURCES DEVELOPMENT
2. DIGITAL ENABLEMENT
3. PROMOTING FUTURE-FIT LEADERSHIP
4. PROMOTING DIVERSITY
5. IMPROVING EMPLOYEE WELLBEING

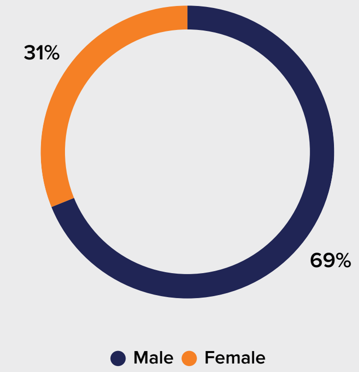
HEADCOUNT

NO.	BAND/GRADE	TOTAL HC	FEMALE	MALE
1	E I and above	10	–	10
2	D I – D II	26	11	15
3	C I – C II	195	66	129
4	B II and below	116	08	108
5	Graduate trainees	15	06	09
	Total	**362**	**91**	**271**

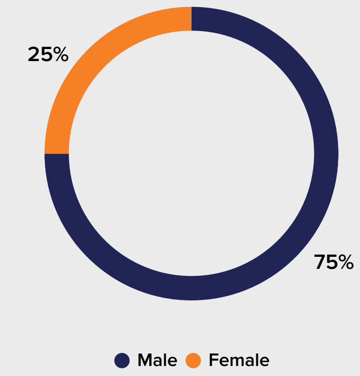
At Qcil, our Human Resources Department serves as the backbone of our operations, ensuring strategic recruitment, planning, nurturing, development, and retention of exceptional top talent that drives quality, innovation and operational excellence.

HARRISON KIGGUNDU
Head of Human Resources

SENIOR LEADERSHIP



TOTAL HEADCOUNT



CAPITAL REVIEWS (CONTINUED)

- A total of 100 staff, of whom 40 are safety marshals and were trained and equipped with skills on safety/fire preparedness.
- The 40 staff were then certified as fire wardens and allocated to monitor different sections of the plant.

GRADUATE TRAINEES PROGRAMME

On 1 April 2023, Qcil's first cohort of 10 graduate trainees in the fields of Electrical Engineering, Mechanical Engineering, Industrial Chemistry, Biomedical Engineering and Environmental Engineering, were onboarded. The programme was a success, and the Graduate Trainees were all enrolled into Qcil's headcount.

CAPITAL REVIEWS (CONTINUED)

INTERNSHIP PROGRAMME

In our effort to create a continuous source of talent in the industry, Qcil trained 112 students from various universities in and around Uganda e.g., Makerere University, Mbarara University, Kyambogo University, Busitema University, KIU and Ndejje University and foreign universities. Amongst these were two individuals with disabilities.

STUDENTS FROM THE UNIVERSITY OF NAMIBIA WITH THEIR UGANDAN COUNTERPARTS

WOMEN IN LEADERSHIP

Qcil celebrated International Women's Day on 8 March with its female staff. On Valentine's Day, we had a women's health event facilitated by a team of doctors from Bethany Hospital in Luzira, followed by a session with the Company counsellor on mental health.

WELLNESS WEEK

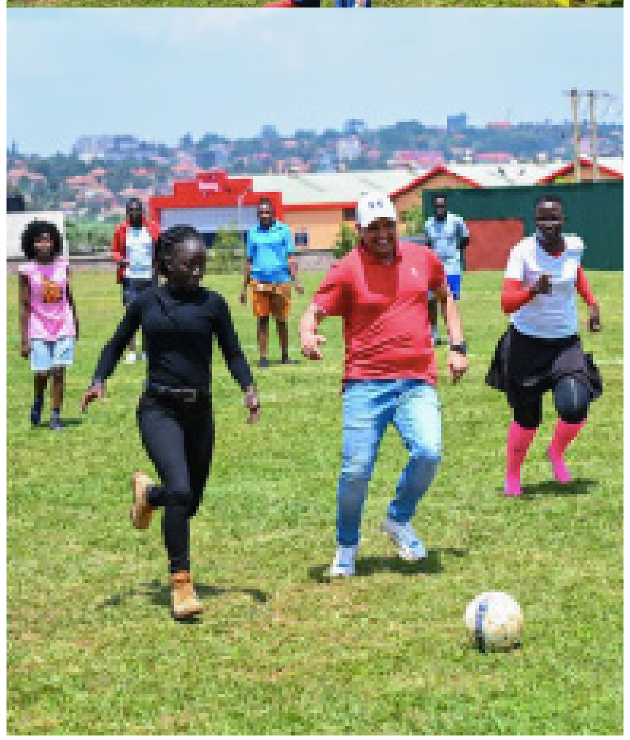
Besides having a health desk where Qcil staff may ask any questions, and be tested for HIV/AIDS and prostate and breast cancer, staff were trained and taken through topics related to general health and wellbeing by Dr Moses Galukande of IHK.

Nutrition and Healthy Living Made Easy was presented by Ivan Phillip Baguma of Nella Organics.

Financial literacy was presented by Mrs Ruth Biyinzika Musoke Kasolo, a Project Director at Private Sector Foundation Uganda. Mrs Kasolo equipped members with new savings skills.

QCIL STAFF PARTICIPATED IN POWER GAMES DURING THE WELLNESS WEEK

- Power aerobics
- Plank jacks
- Bumb-bell weight lifts
- Bilateral rope waves
- Tyre flips
- Tag rope
- Climbing wall challenge
- Outdoor fitness
- Football
- Chess



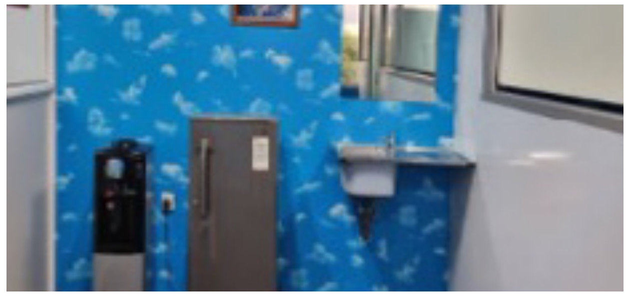
CAPITAL REVIEWS (CONTINUED)

STAFF ANNUAL DAY

The Staff Annual Day was held at the Qcil premises. The well-attended event included recognition of long-serving employees, Employee of the Month, CEO Award, and raffle draws.

LACTATION SUITE

Qcil set up a four-station lactation suite to enable new mothers to balance work with nutritional needs for their little ones.



CSR

1. Qcil partnered with the Rotary Mengo Blood Bank; 338 units of blood were collected
2. 250+ Qcil staff participated in the Rotary Cancer Run and Kabaka birthday run

CORPORATE LEAGUE SPORTS

Qcil staff participated in corporate league games that included football/soccer, football 35+, basketball, volleyball and netball, achieving 7th position out of 46 participating companies.

PEOPLE POLICIES AND EMPLOYEE BENEFITS

At Qcil, we offer a host of benefits to our employees in line with our ethos of providing a conducive and enabling environment to our valued people. A brief summary of such benefits are listed below:

EMPLOYEE LEAVE CATEGORIES:

- Annual
- Sabbatical
- Birthday
- Antenatal
- Maternity
- Paternity
- Sick/Medical
- Compassionate

NEW POLICIES/ PROCEDURES:

- Graduate Trainee
- Internship
- Donation
- ESG
- Time and Attendance
- Four-day work week for staff working 12-hour shifts
- Five-day work week for staff working the general shift

OTHER POLICES/ PROCEDURES:

- Marriage Gift
- Newborn Gift
- Gift and Hospitality
- Long Illness
- Grievance Management
- Exit Medical
- International and Local Travel
- Reward and Recognition
- Long Service Award
- Code of Business Conduct
- Whistleblowing Mechanism
- Retirement Benefits Scheme

OUR RESPONSIBLE LEADERSHIP

GOVERNANCE REPORT

GOVERNANCE PHILOSOPHY

The corporate governance philosophy at Qcil is derived from the set of principles and frameworks embedded in the Company's values. Our vision of becoming a centre of excellence in the manufacturing of quality, affordable medicines and commitment to true wellness ultimately guides our organisation's decisions and anchors our every action.

GOVERNANCE STRUCTURE

1. Board of Directors: The Board is the ultimate decision-making body with key responsibilities of providing strategic direction and overseeing Management and the governance of the Company. The Board remains accountable to stakeholders for the performance and proper running of the affairs of the Company and is cognisant of its obligation to put in place structures and systems that support good governance practices which are compliant with laws, regulations and best standards.

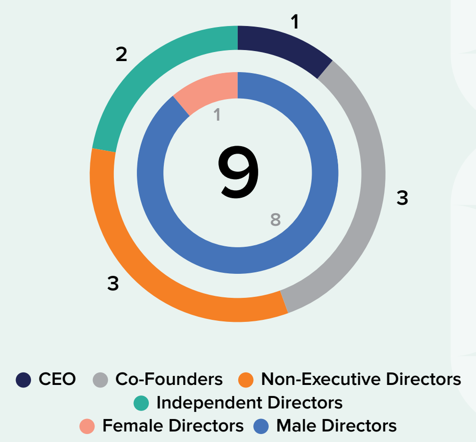
2. Board Committees: The Board delegates some of its responsibilities to Committees to support effectiveness and the timely discharge of obligations and to ensure detailed analysis of issues in a transparent, fair and accountable manner. Each Committee has a Charter approved by the Board which outlines its obligations. The Board ensures accountability of the Committees through regular engagement and reports, which are to be submitted to the Board after every Committee meeting.

3. Chairman: The Chairman presides over the meetings of the Board and the shareholders and plays an important role in ensuring effective governance and oversight, and that corporate objectives are aligned with stakeholders interests.

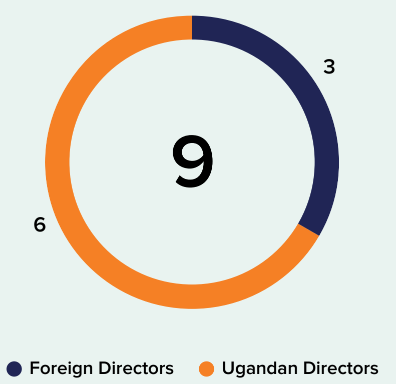
4. Chief Executive Officer: The Chief Executive Officer assumes the overall responsibility for the implementation of the Company's strategy and carrying out the Board's directions, managing the businesses of the Company and driving performance within strategic goals and commercial objectives. The Chief Executive Officer's priorities include designing and implementing a long-term strategy which capitalises on emerging opportunities to secure a leading position in pharmaceutical manufacturing in SSA.

5. Management Team: The Management team serves as the apex leadership team, charged with setting and delivering the strategic long-term growth agenda for Qcil, by creating and delivering processes and products in accordance with best practice. The Management team includes the following members: Chief Executive Officer, Chief Finance Officer, Company Pharmacist and Heads of Departments.

TOTAL NUMBER OF DIRECTORS



NATIONALITY



AGE GROUP

BOARD SKILLS MATRIX

BOARD SKILLS	BOARD SKILL DISTRIBUTION
ECONOMICS Understanding of diverse business environments, regulatory frameworks, economic and political conditions and different cultures	✓
PHARMACEUTICALS Product development, business development, market entry, process re-engineering, science and technology	✓
MANUFACTURING, QUALITY CONTROL AND SUPPLY CHAIN	✓
CORPORATE GOVERNANCE Experience and/or training in the protection of stakeholders' interests, observing best governance practices and identifying and mitigating key governance risks	✓
FINANCE AND ACCOUNTING Proficiency in financial management, reporting, budgeting, balance sheet optimisation, treasury operations, internal and external audit, and capital allocation	✓
SALES, MARKETING AND COMMERCIAL Experience in evaluating growth opportunities, building brand awareness, enhancing enterprise reputation and maintaining strong customer relationships, including with donors, development agencies and governments	✓
M&A AND BUSINESS DEVELOPMENT EXPERIENCE IN CORPORATE FINANCE, BANKING AND STRATEGY	✓
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) AND BUSINESS INTEGRITY (BI) Experience in upholding ESG and BI best practice and assisting with defining the Company's aspirations and monitoring its compliance in these matters	✓
GENERAL MANAGEMENT AND LEADERSHIP General know-how of business management, talent management and development, succession planning, human resources	✓

BOARD MEMBERSHIP CRITERIA AND SELECTION PROCESS

The appointment of directors is governed by the Company's Articles of Association and is in line with the Companies Act of Uganda.

The Nominations Committee reviews potential candidates for appointment as Directors and recommends the candidates to the Board for approval. Newly appointed Directors hold office until they retire and are presented to shareholders for re-appointment.

In line with Qcil's Articles of Association and best practice, one-third of the Non-Executive Directors are required to retire annually and, if available and eligible, stand for re-election at the Annual General Meeting (AGM). The Board has put in place a rotation schedule and Directors who have been in office the longest are calculated from the last re-election or appointment date and must stand for re-election.

Directors standing for re-election in the upcoming AGM are:

- Dr. Peter Mugyenyi
- Mr. Stevens Mwanje

BOARD DUTIES

The Board has the overall responsibility for overseeing the Company's performance, risk management practices and strategic direction of the Company and is collectively accountable to stakeholders in this respect. Board Directors are cognisant of their fiduciary duties to the Company, which underpin the discharge of their responsibilities and their contribution to the decision-making process. In order to take informed decisions, Directors have access to Management and Company information, as well as resources required to support them in the discharge of their responsibilities. Driven by the principles of good corporate governance, the Board strives to act in the best interests of the Company to promote the success of the Company while exercising diligence and care.

The matters placed before the Board this financial year included:

STRATEGIC MATTERS

i. Growth plan
ii. Corporate restructuring activities, including significant shareholder changes
iii. Investment proposals
iv. Corporate rebranding

OPERATIONAL MATTERS

i. Annual operating plans and capital budgets
ii. Regular business/function updates
iii. Any significant development within human resources
iv. Details on regulatory inspections

FINANCE MATTERS

i. Quarterly/Annual financial performance
ii. Any material financial events
iii. Material tax matters

GOVERNANCE MATTERS

i. Litigation notices
ii. Reviewing risk management framework of the Company
iii. Reviewing the compliance status of the Company
iv. Noting fatal or serious accidents/incidents
v. Noting minutes of Board meetings, Board Committees
vi. Approval of Company Policies
vii. Approval of Corporate Social Responsibility related matters
viii. Appointment of auditors
ix. Reviewing internal and external audit reports
x. Approval of appointment and remuneration of Directors
xi. Approval of Board restructuring and composition
xii. Noting of resignation of Directors

BOARD MEETINGS AND ATTENDANCE

During the year, the Board met four times on 10 August 2023, 23 November 2023, 7 February 2024 and 8 May 2024.

Attendance of Committee meetings during the year was as follows:

	10.08.2023	23.11.2023	07.02.2024	08.04.2024
Emmanuel Katongole	√	√	√	√
Dr Peter Mugyenyi	√	√	√	√
Joseph Baliddawa	√	√	√	√
Ajay Kumar Pal	√	√	√	√
Stevens Mwanje	√	×	√	√
Mark Daly**	√	–	–	–
George Baguma	√	√	×	√
Geena Malhotra**	×	–	–	–
Paul Miller**	√	–	–	–
Beth Mandel	N/A	√	√	√
Frederick Mutebi Kitaka	N/A	×	√	√
Vusi Raseroka	N/A	√	√	√

√ – Present X – Absent with Apology N/A – Not yet appointed **Resigned on 14 November 2023

BOARD APPOINTMENTS AND RESIGNATIONS

Mrs Beth Lisa Mandel was appointed by the Board on 23 November 2023. Her appointment was approved by shareholders at an Extraordinary General Meeting of the Company held on 22 December 2023.

Mr Frederick Mutebi Kitaka was appointed by the Board as an Executive Director on 23 November 2023.

The following Directors resigned with effect from 14 November 2023.

i. Mr Paul Miller
ii. Mr Mark Daly
iii. Mrs Geena Malhotra

BOARD COMMITTEES

Following ACW's Aquisition, the Board took a decision to restructure and reconstitute the Board Committees, reducing the number from five to three, being the Audit and Risk Committee, Nominations Committee and Remuneration Committee. The Committees that were dissolved were the Business Development Committee, Finance Committee and ESG and Communications Committee. This decision was based on the need to consolidate its focus on priority areas and avoid duplication of discussions in the Committee and Board meetings.

All matters previously addressed by these Committees were absorbed by the Board.

COMMITTEE STRUCTURE PRE ACW'S AQUISITION

BUSINESS DEVELOPMENT COMMITTEE	ESG COMMITTEE	AUDIT AND RISK COMMITTEE	FINANCE COMMITTEE	NOMINATIONS AND REMUNERATIONS COMMITTEE
GEENA MALHOTRA Committee Chairperson	PAUL MILLER Committee Chairperson	JOSEPH BALIDDAWA Committee Chairperson	MARK DALY Committee Chairperson	DR PETER MUGYENYI Committee Chairperson
EMMANUEL KATONGOLE Member	MARK DALY Member	STEVENS MWANJE Member	EMMANUEL KATONGOLE Member	JOSEPH BALIDDAWA Member
AJAY KUMAR PAL Member	AJAY KUMAR PAL Member	MARK DALY Member	AJAY KUMAR PAL Member	GEENA MALHOTRA Member
DR. PETER MUGYENYI Member	EMMANUEL KATONGOLE Member	DR CHRISTINE NABIRYO Member	STEVENS MWANJE Member	PAUL MILLER Member
GEORGE BAGUMA Member	GEORGE BAGUMA Member	OSCAR MANUGA Member		
PAUL MILLER Member		TIMOTHY BASIIMAMPORA Member		

CURRENT COMMITTEE STRUCTURE

AUDIT AND RISK COMMITTEE	REMUNERATION COMMITTEE
JOSEPH BALIDDAWA Committee Chairperson	DR PETER MUGYENYI Committee Chairperson
STEVENS MWANJE Member	JOSEPH BALIDDAWA Member
DR CHRISTINE NABIRYO Member	BETH MANDEL Member
BETH MANDEL Member	VUSI RASEROKA Member
TIMOTHY BASIIMAMPORA Member	

NOMINATION COMMITTEE
The Nominations Committee was extracted from the Remuneration Committee, is chaired by the Board Chairman and meets on an ad-hoc basis.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is chaired by Mr Joseph Baliddawa, an Independent Non-Executive Director, and is comprised of six members: one Independent Non-Executive Director who is the Chairman, two Non-Executive Directors and three members from outside the Board.

Mrs Beth Mandel was appointed as a member of the Committee on 23 November 2023.

BRIEF DESCRIPTION OF THE TERMS OF REFERENCE

The Audit and Risk Committee is responsible for monitoring the integrity of the Company's financial statements and related public announcements and reviewing significant reporting judgements contained therein. The Audit and Risk Committee is also responsible for monitoring operational risk and the effectiveness of the Company's internal controls.

The Committee comprises members with collective expertise in internal audit and controls, external audit, IFRS, IAS and other regulatory frameworks, risk management, corporate governance and finance and accounting.

During the year, membership of the Committee was as follows:

Joseph Baliddawa	Chairperson	Independent Non-Executive
Mark Daly**	Member	Non-Executive
Stevens Mwanje	Member	Non-Executive
Dr Christine Nabiryo	Member	Member
Timothy Basiimampora	Member	Member
Oscar Manuga**	Member	Member
Beth Mandel	Member	Non-Executive

**Resigned on 14 November 2023

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Dr Peter Mugyenyi, an Independent Non-Executive Director, and is comprised of four members: two Independent Non-Executive Directors, of which one is the Chairman, and two Non-Executive Directors.

Mrs Beth Mandel was appointed as a member of the Committee with effect from 23 November 2023.

BRIEF DESCRIPTION OF THE TERMS OF REFERENCE

The Remuneration Committee is tasked with establishing and proposing to the Board the framework and policy governing the compensation of the Company's executive team and Board, taking into account, *inter alia*, best practice, relevant market surveys and, where applicable, individual and Company performance.

During the year, membership of the Committee was as follows:

Dr Peter Mugyenyi	Chairperson	Independent Non-Executive
Joseph Baliddawa	Member	Independent Non-Executive
Paul Miller**	Member	Non-Executive
Geena Malhotra**	Member	Non-Executive
Beth Mandel	Member	Non-Executive
Vusi Raseroka	Member	Non-Executive

**Resigned on 14 November 2023

GOVERNANCE REPORT (CONTINUED)

NOMINATIONS COMMITTEE

The Nominations Committee is yet to be constituted.

In line with the approved guidelines for the reconstituted Board Committees, the Nominations Committee shall be chaired by the Board Chair.

BRIEF DESCRIPTION OF THE TERMS OF REFERENCE

The Nominations Committee is tasked with providing recommendations to the Board, including amendments to the structure, size and composition of the Board and Committees.

The Nominations Committee shall determine the mode of recruitment (external or internal) and consider the suitability of candidates for Directors appointments, considering the skill and expertise required by the Company's strategy and the Board Matrix. The Committee shall recommend candidates to the Board for approval.

As per clause 100 of the Amended Articles of Association, shareholders are entitled to propose suitable candidates for consideration as Directors. The Nominations Committee has the right to reject a nomination and request alternative nominations.

The ultimate responsibility for appointing and rotating Directors rests with shareholders at the AGM, upon recommendation by the Board.

Attendance of Committee meetings during the year was as follows:

AUDIT AND RISK COMMITTEE MEETINGS

	08.08.2023	22.09.2023	06.02.2024	07.04.2024
JOSEPH BALIDDAWA Committee Chairperson	√	√	√	√
STEVENS MWANJE Member	√	√	√	√
MARK DALY** Member	√	–	–	–
BETH MANDEL Member	N/A	√	√	√
DR CHRISTINE NABIRYO Member	√	√	√	×
TIMOTHY BASIIMAMPORA Member	√	√	√	√
OSCAR MANUGA** Member	√	–	–	–

√-Present   X - Absent with Apology   N/A - Not Appointed   **Resigned on 14 November 2023

REMUNERATION COMMITTEE MEETINGS

	08.08.2023	23.11.2023	06.02.2024	07.04.2024
DR PETER MUGYENYI Committee Chairperson	√	√	√	√
JOSEPH BALIDDAWA Member	√	√	√	√
GEENA MALHOTRA** Member	×	–	–	–
PAUL MILLER** Member	√	–	–	–
BETH MANDEL Member	N/A	√	√	√
VUSI RASEROKA Member	N/A	√	√	√

**Resigned on 14 November 2023

STAKEHOLDER MANAGEMENT

The Board is cognisant of the need to uphold the interests of all stakeholders and takes these interests into consideration during the decision-making process. Keen focus remains on building the pillars that support our commitment to ESG governance systems.

The Company releases interim and annual financial results and engages with its various stakeholders through media and the AGM, which incorporates a platform for shareholders to provide feedback.

The AGM is organised annually in line with good corporate governance standards to engage with the Company in a transparent manner and exercise their voting rights on material matters.

REPORT FROM THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (the Committee) in implementing its mandate is guided by the Audit and Risk Committee Charter which is informed by the Ugandan Companies Act, the Capital Markets Authority Corporate Governance Guidelines and the Uganda Securities Exchange (USE) Listing Rules 2021.

During the year under review, the Committee, among other matters, considered the following:

A. IN RESPECT OF FINANCIAL STATEMENTS, THE COMMITTEE:

i. Received and reviewed the interim and annual financial statements presented by Management prior to submission and approval by the Board.

ii. Obtained assurance from the External Auditor that the financial statements had been prepared in accordance with the Companies Act, 2012, the USE Listing Rules 2021, International Financial Reporting Standards (IFRS) and other legal and regulatory requirements.

iii. Ensured that the annual financial statements fairly presented the financial position of the Company as at the end of the financial year and considered the basis on which the Company had been determined to be a going concern.

iv. Considered the appropriateness of accounting treatment, of significant unusual transactions and accounting judgements.

v. Considered the appropriateness of the accounting policies in place and recommended changes where necessary.

vi. Reviewed and discussed the Management Letter and report of the External Auditor.

vii. Considered and made recommendations to the Board on the interim and final dividend payments to the shareholders.

viii. Noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of the annual financial statements, internal controls and related matters.

ix. Reviewed significant legal and tax matters that could have a material impact on the financial statements.

x. Reviewed the Company's financial position and made recommendations to the Board on financial matters, risks and controls. This included assessing the integrity and effectiveness of accounting, financial, compliance and control systems in place.

xi. Confirmed the going concern principle as the basis of preparation of the annual financial statements.

xii. After review, presented and recommended the Audited Financial Statements to the Board for approval. The External Auditor issued an unqualified audit opinion on the Company's financial statements for the year ended 31 March 2024.

B. IN RESPECT OF THE EXTERNAL AUDITOR AND THE EXTERNAL AUDIT, THE COMMITTEE:

i. Approved the External Auditor's terms of engagement.

ii. Discussed with the External Auditor the external audit plan, the audit findings, financial reporting process and the overall quality of the financial reporting and compliance.

iii. Reviewed the audit process and evaluated the effectiveness of the audit.

iv. Obtained assurance from the External Auditor that their independence was not impaired and that no non-audit services were provided by the External Auditor.

v. Confirmed that no reportable irregularities were identified and reported by the External Auditor.

vi. Undertook a performance evaluation of the External Auditor and provided feedback to the External Auditor on findings of the evaluation.

vii. Recommended to the Board the re-appointment of Grant Thornton, Certified Public Accountants Uganda, as External Auditor for the financial year ending 31 March 2025, in accordance with all applicable legal requirements.

C. INDEPENDENCE OF THE EXTERNAL AUDITOR

The Committee is satisfied that the External Auditor, Grant Thornton, is independent of the Company.

This was determined, after taking into account the following factors:

i. The representations made by Grant Thornton to the Audit and Risk Committee in relation to their independence as external auditor.

ii. The Auditor does not, except as External Auditor, receive any remuneration or other benefits from the Company.

iii. The Auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the firm.

iv. The Auditor's independence was not prejudiced as a result of any previous appointment as auditor.

D. IN RESPECT OF THE INTERNAL CONTROL AND INTERNAL AUDITOR, THE COMMITTEE:

i. Reviewed and approved the Internal Audit Charter and annual audit plan and evaluated the independence, effectiveness and performance of the internal audit function and compliance with its Charter.

ii. Considered reports of the Internal Auditor on the internal control, including internal financial controls and maintenance of effective internal control systems.

iii. Approved the Internal Auditor's terms of engagement.

iv. Reviewed the audit process and evaluated the effectiveness of the audits.

v. Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory.

vi. Undertook a performance evaluation of the Internal Auditor and provided feedback to the Internal Auditor on findings of the evaluation.

vii. Reviewed significant issues raised by the internal audit processes and the adequacy of corrective actions in response to such findings.

viii. Ensured that if any significant differences of opinion existed between the Internal Auditor and Management, these were appropriately resolved.

ix. Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal.

x. The Committee formed the opinion that there were no material breakdowns in internal control at the date of this report, including internal financial controls, which may result in a material loss to the Company.

xi. Approved the renewal of the Contract of Mazars BRJ as Internal Auditor of the Company for the period ending 31 March 2025.

E. IN RESPECT OF LEGAL, REGULATORY AND COMPLIANCE REQUIREMENTS, THE COMMITTEE:

i. Reviewed, together with Management, matters that could have a material impact on the Company.

ii. Monitored compliance with applicable legislation and governance codes, and reviewed reports from Internal Audit, External Auditor and Management detailing the extent of compliance.

iii. Noted that no complaints were received through the Whistleblower Hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

F. IN RESPECT OF RISK MANAGEMENT AND ESG, THE COMMITTEE:

i. Considered risks as they pertained to the control environment, financial reporting and the going concern assessment.

ii. Considered and reviewed reports from Management on risk management, including reports on Environment, Social and Governance, the Cipla transition, fraud and its bearing on financial reporting and the going concern assessment.

G. IN RESPECT OF THE ANNUAL REPORT, THE COMMITTEE:

i. Ensured that all material disclosures were included in the Annual Report.

ii. Reviewed forward-looking statements, financial and sustainability information in respect of internal controls and internal audit.

In conclusion, the Audit and Risk Committee has complied with its legal, regulatory and governance responsibilities as set out in its Charter.

On behalf of the Audit and Risk Committee

MR. JOSEPH BALIDDAWA

Chairman, Audit and Risk Committee

REMUNERATION REPORT

1. REMUNERATION PHILOSOPHY

The Board, in determining the renumeration structures in the organisation, places great importance on attracting, motivating, rewarding, and retaining talent. Given the competitive landscape in the health and manufacturing sector in Uganda, the Remuneration Committee plays a crucial role in achieving this balance.

Qcil endeavours to attract, retain and nurture a calibre of human resource capable of delivering sustainable growth for the organisation. Ensuring effective remuneration philosophies, structures and practices are in place and are appropriately implemented remains a key agenda for the Remuneration Committee.

The Board reviews the remuneration philosophies, structures and practices to ensure they are in line with the law, enhance performance and promote sustainability of the business.

2. TERMS OF EMPLOYMENT

The terms and conditions of employment of all employees are guided by local legislation and the Company's Human Resource Manual.

3. STRUCTURE OF THE REMUNERATION

Qcil's remuneration policy ensures a balanced mix of fixed pay and variable incentives. Fixed pay adjustments are based on market surveys and benchmarking while variable pay is tied to performance.

FIXED PAY

This is intended to attract and retain employees by ensuring competitive positioning in the local market. The Remuneration Committee reviews the fixed pay at the end of every financial year to ensure it remains competitive and is aligned to the remuneration philosophy of the organisation.

BENEFITS

Benefits are provided in line with market practice and regulatory requirements. The Company provides medical cover and death benefits for staff and declared dependents. Other benefits like contribution to the staff retirement scheme are also provided. In addition, the Company provides lunch to its employees at no cost.

VARIABLE PAY: ANNUAL INCENTIVE

Annual incentives are provided to ensure appropriate reward for performance. Performance bonuses are determined based on personal performance and the overall company performance. Our performance management system allows us to set goals, review progress, and reward accordingly.

SEVERANCE PAYMENTS

Severance payments are determined by legislation, market practice and the Human Resources Manual. The Company does not pay severance payments beyond the provisions of the Employment Act, 2006.

RESTRICTIVE COVENANTS

Some employment contracts include non-compete provisions and restrictive covenants on the poaching of customers, disclosure of Company information to a third party and use of Company information for personal gain.

4. DIRECTORS' REMUNERATION

REMUNERATION OF DIRECTORS

The remuneration for Directors is determined in the same manner as that of other employees and using the same qualifying criteria.

REMUNERATION OF NON-EXECUTIVE DIRECTORS AND TERMS OF ENGAGEMENT

Newly appointed Directors hold office until they retire and are presented to shareholders for re-appointment.

In line with Qcil's Articles of Association and best practice, one-third of the Non-Executive Directors are required to retire annually and, if available and eligible, stand for re-election at the Annual General Meeting (AGM).

In determining the remuneration of the Non-Executive Directors, the Board benchmarks with other organisations of a nature similar to Qcil.

The table below shows the breakdown of Directors' emoluments for the year ended 31 March 2024.

	Fixed Pay Shs '000	Benefits Shs '000	Quarterly Fees Shs '000	Committees Sitting Allowance Shs '000
Directors	6,217,299	1,186,924		
Non-Executive Directors			184,512	110,723

FINANCIAL INFORMATION

REPORT OF THE CHIEF FINANCE OFFICER

FY23/24 was one of exponential growth and operational excellence for Qcil. We achieved significant milestones across various financial metrics, underscoring the strength and resilience of our business model in an evolving market landscape. Central to our success was our value-creating model which integrated innovation, stakeholder focus and operational excellence.

LIQUIDITY AND CASH FLOW MANAGEMENT

Qcil maintained a strong liquidity position, reflecting our focus on financial prudence and effective cash management strategies.

Cash generated from operating activities remained strong at Shs 67.1 billion, reflecting an increase of 60% compared to the previous year.

This robust cash flow performance supported Qcil's value-creating business model to:

- **Invest in Factory Efficiencies:** Shs 3.8 billion was used for capital expenditure for capacity maintenance and technological advancements.
- **Debt Reduction:** The balance of the interest-bearing debt of Shs 5.4 billion was repaid, strengthening our balance sheet, and enhancing financial stability.
- **Shareholder Distribution:** Dividend payouts increased by 105% to Shs 15.0 billion reflecting Qcil's commitment to delivering value to our shareholders.

To sustain and enhance liquidity, Qcil applied the following strategic measures:

- **Rigorous Cash Management:** Qcil maintained rigorous cash management practices to optimise cash flow. These included close monitoring of receivable and payable balances, efficient inventory management, and careful timing of capital expenditure.
- **Credit Lines:** Qcil secured and maintained adequate credit lines with its bankers. These lines of credit provided additional liquidity, which could be drawn upon if needed, ensuring uninterrupted access to funds.
- **Strategic Investment Planning:** Capital expenditure planning was aligned with cash flow projections. By prioritising investments that offered higher returns and careful timing of the cash outflows, Qcil ensured that the liquidity remained strong.
- **Continuous Stakeholder Communication:** Qcil maintained transparent and regular communication with stakeholders, including suppliers, customers, bankers, and employees, which helped in managing expectations and fostering trust. This transparency ensured continued support and confidence in our financial strategies.

The strong liquidity position reflected disciplined financial management and strategic planning. The focus remains on ensuring that Qcil has adequate liquidity to support the value-creating business model and weather any economic uncertainties that may come.

CAPITAL STRUCTURE

There was significant progress made in optimising our capital structure, particularly the successful management of the remaining term loan.

The loan repayment was made possible by good cash generation during the year. The strong financial performance positions Qcil to fund future growth in the following aspects:

- **Strengthened Cash Flows:** Operational efficiency and strong revenue performance generated exceptional cash flows, enabling Qcil to address debt obligations ahead of schedule. In addition, it enabled Qcil to resume dividend payments and institute an interim dividend for the first time in the Company's history.
- **Reduced Interest Expense:** By retiring this debt early, Qcil lowered interest expenses, which positively impacts the bottom line. This reduction in financial burden allows allocation of more resources towards strategic investments and shareholder distributions.
- **Enhanced Credit Profile**: The repayment of the loan improved Qcil's credit profile, thereby increasing attractiveness to investors and lenders. This stronger financial standing enhances our ability to secure favourable terms for future financing, should the need arise.
- **Capital Allocation Strategy:** Our decision to prioritise debt repayment reflects our disciplined approach to capital allocation. We remain focused on balancing the needs of growth, risk management, and shareholder value creation. The enhanced capital structure positions Qcil well to seize new opportunities and navigate economic uncertainties.

RISK MANAGEMENT

Qcil is committed to sound financial risk management in navigating the ever-changing economic environment and ensuring stability and growth. Effective risk management is at the heart of the Company's value-creating business model, allowing for safeguarding of assets, maintenance of liquidity, and enhancement of shareholder value.

Qcil recognises several key financial risks that could impact our business, including, *inter alia*:

- Market risk;
- Credit risk; and
- Liquidity risk.

The management of these risks has been detailed in the financial statements.

STRATEGIC INITIATIVES

During the year, Qcil undertook several strategic initiatives that have laid the groundwork for sustained future growth. These comprised:

- **Innovation:** Technology transfer for six products was completed during the year and five of these were launched in Uganda. The new products have been well-received by the patients and doctors.
- **Market Expansion:** Continuous marketing of treatments in other African countries led to growth in the export segment which contributed Shs 95.5 billion to the top line.
- **Sustainability:** Qcil continued to implement sustainability initiatives in line with our ESG goals. The initiatives include, *inter alia*:
  - Water recycling;
  - Reduction of carbon emissions; and
  - Reduction of waste-to-landfill.

OUTLOOK

Looking ahead, we remain committed to our strategic priorities and the value-creating business model. Our strategic priorities for the next financial year include:

- **Sustainable Growth:** Continuing to focus on sustainable business practices that drive long-term value creation for all stakeholders.
- **Geographical Expansion:** Leveraging Qcil's product registration in 31 African countries, market development activities will continue with the objective of increasing the export segment. The previous years' market development initiatives are starting to bear fruit as signalled by the exceptional growth in FY23/24.
- **Product Range Expansion:** Qcil is expanding into new treatment areas, including antibiotics, antihypertensives and antidiabetics. The new product range will initially be available to the private market in Uganda and thereafter expand to other African countries.
- **Capacity Expansion:** With the aggressive geographical market expansion, increase in local orders and additions to the manufactured product range, there is justification to step up the production capacity. Qcil is evaluating its capacity and considering expansion.
- **Digital Transformation:** Accelerating our digital initiatives to enhance operational efficiency and customer experience.

In conclusion, while we are aware that the macroeconomic environment continues to be a challenge, we are well aligned and prepared as a business to respond to and manage any emerging risks. We will navigate future challenges and capitalise on opportunities to drive sustained growth and value to our stakeholders.

APPRECIATION

I would like to extend my heartfelt gratitude to the Board and the management team for their unwavering support and guidance during the year.

A special thank you to the dedicated finance team whose hard work and commitment have been part of the cornerstone of Qcil's success this year. Their diligence in maintaining accurate records, innovative problem-solving, and unwavering focus on our financial goals have been truly exceptional. Our achievements in strengthening our financial position and driving sustainable growth would not have been possible without their expertise and teamwork. I am incredibly proud to lead such a talented team of professionals, and I look forward to our continued success together.

I would also like to congratulate the team for winning an accolade at the 2023 ICPAU Financial Reporting Awards. Excellence in reporting will continue to be our target as we consistently increase transparency and value to our stakeholders.

Thank you for your remarkable contributions and dedication to excellence.

FREDERICK KAKOOZA

Chief Finance Officer

DIRECTORS' REPORT

The Directors have the pleasure in submitting their report on the financial statements of Quality Chemical Industries Limited (the Company) for the year ended 31 March 2024, which disclose the state of affairs of the Company.

A. INCORPORATION AND PRINCIPAL ACTIVITY

The Company was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited (QCL), a private limited Company incorporated in the Republic of Uganda, and Cipla Limited (Cipla). Cipla subsequently acquired a controlling interest in the Company, holding 51.05% and 11.25% of the Company's shares through Meditab Holdings Limited and Cipla (EU) Limited, respectively, until September 2018.

The Company converted to a public company on 7 October 2016 and, on 17 September 2018, the Company listed on the Uganda Securities Exchange, offering 18.00% of the shareholding to individual and institutional investors in an Initial Public Offering (IPO). During the IPO, Cipla (EU) Limited reduced its shareholding from 11.25% to 0.13% and therefore, Cipla's interest in the Company reduced to 51.18%.

On 14 November 2023, Africa Capitalworks acquired 51.18% of the issued ordinary shares of the Company from Cipla and on 14 February 2024, the Company reverted to Quality Chemical Industries Limited (Qcil).

The Company's principal activity is manufacturing and selling of pharmaceutical drugs with emphasis on antiretroviral (ARVs) and Artemisinin-based Combination Therapy (ACTs or anti-malarial drugs).

B. RESULTS FOR THE YEAR

Full details of the financial position, results of operations and cash flows of the Company are set out in the accompanying financial statements.

C. DIVIDENDS

The Board of Directors has recommended the declaration of a dividend of Shs 5.7 per share for the year ended 31 March 2024 (2023: final dividend of Shs 2.5 per share). Dividend payment is subject to withholding tax.

D. DIRECTORS AND OFFICERS

The Directors who held office during the year and to the date of this report were:

NAME (NATIONALITY)	DESIGNATION
Emmanuel Katongole (Ugandan)	Co-Founder and Director (Chairman)
Ajay Kumar Pal (Indian)	CEO
Dr. Peter Mugyenyi (Ugandan)	Independent Non-Executive Director (Appointed June 20, 2019)
Joseph Baliddawa (Ugandan)	Independent Non-Executive Director (Appointed August 17, 2018)
George Baguma (Ugandan)	Co-Founder and Director (Appointed June 10, 2005)
Frederick Mutebi Kitaka (Ugandan)	Co-Founder and Director (Appointed November 14, 2023)
Beth Lisa Mandel (South African)	Non-Executive Director (Appointed December 21, 2023)
Vusi Raseroka (South Africa)	Non-Executive Director (Appointed August 24, 2023)
Stevens Mwanje (Ugandan)	Non-Executive Director (Appointed July 22, 2019)
Zain Latif (British)	Alternate to George Baguma
Paul Miller (South African)	Non-Executive Director (Resigned November 14, 2023)
Mark Warwick Daly (South African)	Non-Executive Director (Resigned November 14, 2023)
Geena Malhotra (Indian)	Non-Executive Director (Resigned November 14, 2023)

E. DIRECTORS' INTERESTS IN SHARES

During the year, no contracts were entered into which Directors or officers of the Company had an interest and which significantly affected the business of the Company.

As at 31 March 2024, the following Directors held a direct interest in the Company's share capital as reflected in the table below:

	Number of shares	% Holdings
Directors		
Emmanuel Katongole	**101,933,042**	2.7912
Frederick Mutebi Kitaka	**101,933,042**	2.7912
George Baguma	**101,933,042**	2.7912
Stevens Mwanje	**19,400**	0.0005
	305,818,526	8.3741

As part of Africa Capitalworks' majority acquisition on 14 November 2023, Emmanuel Katongole, Frederick Mutebi Kitaka and George Baguma indirectly acquired additional shareholding in the Company of 1.5% each.

F. INDEPENDENT AUDITOR

The independent auditor, Grant Thornton Certified Public Accountants, has expressed its willingness to continue in office in accordance with section 167(2) of the Companies Act, 2012.

G. EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any matter or circumstance which is material to the financial affairs of the Company, which has occurred between 31 March 2024 and the date of approval of the financial statements, that has not been otherwise dealt with in the financial statements.

By Order of the Board,

Peace Namara
Acting Secretary

8 May 2024
Kampala, Uganda

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 2012 requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the Directors to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors are ultimately responsible for the system of internal control established by the Company. The Directors delegate responsibility for internal control to Management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of the Company's assets. These systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The Directors accept responsibility for the financial statements for the year ended 31 March 2024, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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 12 months from the date of this statement.

The financial statements on pages 94 to 134, which have been prepared on the going concern basis, were approved by the Board of Directors on 8 May 2024 and signed on its behalf by:

Emmanuel Katongole
Chairman

Date: 8 May 2024
Kampala, Uganda

Ajay Kumar Pal
CEO

Date: 8 May 2024
Kampala, Uganda

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF QUALITY CHEMICAL INDUSTRIES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Quality Chemical Industries Limited (the Company) set out on pages 94 to 134, which comprise the statement of financial position as at 31 March 2024, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2024, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2012.

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' International Code of Ethics for Professional Accountants (including International Independence Standards) (Parts 1 and 3) (IESBA Code) and other independence requirements applicable to performing audits of financial Statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Uganda. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Expected credit losses on trade receivables The Company recognises Expected Credit Loss (ECL) on its financial assets measured at amortised cost mainly trade receivables which are stated at Shs 31,848,677 thousand as at 31 March 2024 (2023: Shs 60,561,966 thousand). The expected credit loss as at that date is Shs 12,367,841 thousand against the trade receivables (2023: Shs 11,825,673 thousand). We noted that the ECL model requires significant judgement and assumptions in deriving the impairment allowance and hence we have considered this to be a key audit matter. The Company uses a simplified approach in accounting for expected credit losses on trade receivables basing on historical experience, external indicators, and forward-looking information.	**Our audit procedures included understanding and testing of the design, implementation and operating effectiveness of the relevant controls around;** • approving, recording and monitoring of sales and customer credit; • identifying impaired trade receivables; and • the governance process of continuous re-assessment of the appropriateness of assumptions and estimates used in determining the loss allowance. Our testing of the design, implementation and operating effectiveness of the controls provided a basis for us to continue with the planned nature, timing and extent of our substantive audit procedures. **Our substantive audit procedures included the following:** • for selected balances, we substantiated the recorded amounts by counterparty confirmation or by performing alternative procedures; • we performed a sensitivity analysis to determine which assumptions are significant (i.e., those that have a greater effect on the outcome of the ECL); • evaluated whether management's simplified modelling approach is appropriate. This included understanding whether the model methodology and logic meet all relevant requirements of IFRS 9 – Financial Instruments; • considered whether the individual inputs and assumptions appear reasonable. This included validation of individual assumptions to relevant supporting information and performing a retrospective review of the assumptions; • considered whether the assumptions appropriately reflect current market information; • tested historical loss data to validate the completeness and accuracy of key parameters; • assessed whether the matrix is applied to appropriate groupings of assets which share credit risk characteristics; • evaluated the completeness and accuracy of asset level data; • reviewed the judgements and decisions made by management in estimating the ECL to identify whether indicators of possible management bias exist; and • obtained relevant representations from the Directors about whether the Directors believe that significant assumptions used in estimating the ECL are reasonable. Based on our review, we did not identify any exceptions that would result in material misstatement to the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Valuation of inventories and related provisions Inventories, stated at Shs 86,319,714 thousand (2023: Shs 66,335,779 thousand) as at 31 March 2024, represent the substantial proportion of assets on the statements of financial position of the Company. There are significant estimates involved in valuation of the inventories related to the assessment of direct costs and allocation of the manufacturing and production overheads. In addition, the valuation of the inventories is done at the lower of costs or net realisable value as per the Company's accounting policy. Thus, management's assessment of the percentage of write down for inventories is based on historical experience and judgement.	Our audit procedures included understanding and testing of the design, implementation and operating effectiveness of the relevant controls around; • issue of materials for production; • physical inventories; • valuation of the inventories; and • valuation of the provision for the obsolete, expired or slow-moving inventories. Our testing of the design, implementation and operating effectiveness of the controls provided a basis for us to continue with the planned nature, timing and extent of our substantive audit procedures. **Our substantive audit procedures included the following:** • reviewed periodic reconciliations of perpetual physical counts; • assessed the appropriateness and reasonableness of the inventory provision through evaluating; – historical inventory and sales data; – management's latest forecasts and trading plans; and – selling prices achieved subsequent to the year-end. • we recalculated the inventory provision using the verified data to test the calculations within management's workings; • reviewed reconciliations of inventories to the cost of goods sold; • evaluated the methods of measurement and assumptions used in the systematic allocation of fixed and variable production overheads; and • on a sample basis tested the valuation of work-in-progress, raw materials, consumables, and finished goods for compliance with IAS 2 – Inventories. Based on our review, we did not identify any exceptions that would result in material misstatement to the financial statements.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Revenue recognition The Company's revenue for the year ended March 31, 2024 was Shs 265,339,800 thousand (2023: Shs 221,466,376 thousand). Given the significance of revenue as a key performance indicator, there is an increased risk of misstatement to meet performance targets. In this regard, revenue has been considered a key audit matter. Also, there is a risk that revenue may not be recognised in accordance with IFRS 15: Revenue from contracts with customers, and that the cut-off point at which customers obtain control of goods may not be correctly reflected in the financial statements.	Our audit procedures included understanding and testing of the design, implementation, and operating effectiveness of the relevant controls around the sales process. We obtained and reviewed sales contracts held with major partners by the Company to understand and identify the performance obligations, transaction price and inspect the key terms and conditions of contracts and assess if there were any terms and conditions that may have affected the accounting treatment. We performed sales cut-off testing immediately before and after the year end by testing sales invoices to evidence of delivery to ensure that revenue had been recognised in the correct accounting period, additionally we have performed similar detailed testing on credit notes to confirm that the credit notes have been recognised in the appropriate accounting period; and Performed analytical procedures around revenue and gross profit margins. Checked reasonableness of revenues recognised by reconciling inventory movements for finished goods to the sales recorded. In addition, we tested significant manual journal entries posted to revenue, to identify and understand unusual or irregular items and obtained evidence to support their recognition. As a result of the procedures performed, we have been able to conclude that revenue has been recognised in accordance with the Company's revenue recognition policy and IFRS 15 – Revenue from Contracts with Customers.

OTHER INFORMATION

The Directors are responsible for the other information on pages 1 to 87.

Our opinion on the financial statements does not cover the other information, and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the requirements of the Companies Act 2012, 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.

The Directors are responsible for overseeing the Company's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 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 the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the Directors 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.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extreme rare circumstances, we determine that a matter may not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, 2012 we report to you, based on our audit, that:

i) We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit;

ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

iii) The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Nilesh Patel – P0374.

Nilesh Patel
P0374

Grant Thornton
Certified Public Accountants

8 May 2024
Kampala, Uganda

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For The Year Ended 31 March 2024

	Notes	2024 Shs '000	2023 Shs '000
Revenue	4	**265,339,800**	221,466,376
Cost of sales	5	**(162,417,501)**	(154,457,788)
Gross profit		**102,922,299**	67,008,588
Other income	6	**72,864**	333,096
General and administrative expenses	7	**(59,293,734)**	(53,995,292)
(Impairment)/Reversal of impairment allowance	18	**(542,168)**	15,661,237
Operating profit		**43,159,261**	29,007,629
Finance income	10	**5,119,076**	3,843,980
Finance costs	10	**(432,848)**	(1,068,230)
Profit before tax	12	**47,845,489**	31,783,379
Taxation	13	**(16,085,164)**	(12,796,661)
Profit for the year		**31,760,325**	18,986,718
Other comprehensive income		**–**	–
Total comprehensive income for the year		**31,760,325**	18,986,718
Basic and diluted earnings per share (Shs)	20(d)	**8.70**	5.20

The notes on pages 98 to 134 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2024

	Notes	2024 Shs '000	2023 Shs '000
ASSETS			
Non-current assets			
Property, plant, equipment and right-of-use assets	14	**61,317,371**	67,339,505
Capital work-in-progress	15	**3,059,294**	3,022,079
Intangible assets	16	**451,018**	901,412
		64,827,683	71,262,996
Current assets			
Inventories	17	**86,319,714**	66,335,779
Trade and other receivables	18	**27,098,634**	62,951,599
Income tax recoverable	13(c)	**287,392**	2,104,114
Cash in hand and at bank	19	**53,451,182**	10,812,571
		167,156,922	142,204,063
TOTAL ASSETS		**231,984,605**	213,467,059
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20	**45,648,865**	45,648,865
Reserve	21	**2,275,000**	2,275,000
Proposed dividend	22	**14,972,828**	9,129,773
Retained earnings		**125,303,269**	114,358,827
		188,199,962	171,412,465
LIABILITIES			
Non-current liabilities			
Deferred tax liability	13(b)	**155,083**	1,074,232
Lease liabilities	24	**168,398**	67,462
		323,481	1,141,694
Current liabilities			
Term loan	23	**–**	5,400,750
Lease liabilities	24	**109,328**	49,816
Trade and other payables	25	**43,351,834**	35,462,334
		43,461,162	40,912,900
TOTAL LIABILITIES		**43,784,643**	42,054,594
TOTAL EQUITY AND LIABILITIES		**231,984,605**	213,467,059

The financial statements on pages 94 to 134 were approved by the Board of Directors on 8 May 2024 and signed on its behalf by:

Emmanuel Katongole
Director

Ajay Kumar Pal
CEO

The notes on pages 98 to 134 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For The Year Ended 31 March 2024

	Share capital Shs '000	Reserve Shs '000	Proposed dividend Shs '000	Retained earnings Shs '000	Total equity Shs '000
Balance as at 1 April 2022	45,648,865	2,275,000	7,303,818	104,501,882	159,729,565
Profit for the year	–	–	–	18,986,718	18,986,718
Other comprehensive income	–	–	–	–	–
	45,648,865	2,275,000	7,303,818	123,488,600	178,716,283
Proposed dividend	–	–	9,129,773	(9,129,773)	–
Dividend paid	–	–	(7,303,818)	–	(7,303,818)
Transaction with owners of the Company	–	–	1,825,955	(9,129,773)	(7,303,818)
Balance as at 31 March 2023	45,648,865	2,275,000	9,129,773	114,358,827	171,412,465
Balance as at 1 April 2023	**45,648,865**	**2,275,000**	**9,129,773**	**114,358,827**	**171,412,465**
Profit for the year	**–**	**–**	**–**	**31,760,325**	**31,760,325**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**
	45,648,865	**2,275,000**	**9,129,773**	**146,119,152**	**203,172,790**
Proposed dividend	**–**	**–**	**20,815,883**	**(20,815,883)**	**–**
Dividend paid	**–**	**–**	**(14,972,828)**	**–**	**(14,972,828)**
Transaction with owners of the Company	**–**	**–**	**5,843,055**	**(20,815,883)**	**(14,972,828)**
Balance as at 31 March 2024	**45,648,865**	**2,275,000**	**14,972,828**	**125,303,269**	**188,199,962**

The notes on pages 98 to 134 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For The Year Ended 31 March 2024

	Notes	2024 Shs '000	2023 Shs '000
Operating activities			
Profit before tax		**47,845,489**	31,783,379
Adjustment for:			
– Impairment/(Reversal of impairment) allowance		**542,168**	(15,661,237)
– Depreciation	14	**10,113,645**	9,268,639
– Amortisation	16	**477,086**	474,448
– Provision/(Reversal of provision) for obsolete stock		**926,405**	(1,209,486)
– Gain on sale of property, plant, equipment and right-of-use assets	6	**–**	(265,812)
– Interest expense		**432,848**	1,068,230
Changes in working capital:		**60,337,641**	25,458,161
– Inventories		**(20,910,340)**	15,265,323
– Trade and other receivables		**35,310,797**	34,503,378
– Trade and other payables		**8,138,412**	(23,690,439)
Cash generated from operating activities		**82,876,510**	51,536,423
Interest paid on bank overdraft	23	**(272,139)**	(293,227)
Interest paid on term loan	23	**(131,841)**	(744,359)
Payment of interest on lease liabilities	24(c)	**(28,868)**	(30,644)
Tax paid		**(15,373,933)**	(8,628,854)
Net cash generated from operating activities		**67,069,729**	41,839,339
Cash flows from investing activities			
Proceeds from sale of property, plant, equipment and right-of-use assets		**–**	303,434
Purchase of property, plant, equipment and right-of-use assets	14	**(1,395,309)**	(7,884,021)
Additions to capital work-in-progress	15	**(2,462,337)**	(3,012,808)
Purchase of intangible assets	16	**(26,692)**	(43,293)
Net cash used in investing activities		**(3,884,338)**	(10,636,688)
Cash flows from financing activities			
Dividends paid		**(14,972,828)**	(7,303,818)
Repayment of term loan	23	**(5,400,750)**	(21,424,375)
Repayment of lease liability	24(b)	**(173,202)**	(148,090)
Net cash used in financing activities		**(20,546,780)**	(28,876,283)
Net change in cash in hand and at bank		**42,638,611**	2,326,368
Cash in hand and at bank at start of year		**10,812,571**	8,486,203
Cash in hand and at bank at end of year	19	**53,451,182**	10,812,571

The notes on pages 98 to 134 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. COMPANY INFORMATION

Quality Chemical Industries Limited was incorporated on 10 June 2005 as a joint venture between QCL, an entity incorporated in the Republic of Uganda, and Cipla, for the manufacture and sale of pharmaceutical drugs with emphasis on ARVs and ACTs. The Company owns a pharmaceutical plant at Luzira Industrial Park.

Cipla subsequently acquired a controlling interest in the Company, holding 51.05% and 11.25% of the Company's shares through Meditab Holdings Limited and Cipla (EU) Limited, respectively. The Company's name was subsequently changed from Quality Chemical Industries Limited to Cipla Quality Chemical Industries Limited.

The Company converted to a public company on 7 October 2016, and on 17 September 2018, the Company listed on the Uganda Securities Exchange, offering 18.00% of the shareholding to individual and institutional investors in an IPO. During the IPO, Cipla (EU) Limited reduced its shareholding from 11.25% to 0.13% and therefore, Cipla's interest in the Company reduced to 51.18%.

On 14 November 2023, Africa Capitalworks acquired 51.18% of the issued ordinary shares of the Company from Cipla and on 14 February 2024, the Company reverted to its original name, Quality Chemical Industries Limited.

2. MATERIAL ACCOUNTING POLICIES

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

a) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and presented in Uganda Shillings (Shs) which is the Company's functional currency.

All financial amounts presented in Shs have been rounded to the nearest thousand except when otherwise indicated. Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency), except where otherwise indicated.

b) Statement of compliance

The financial statements have been prepared in accordance with IFRS and in compliance with the requirements of the Companies Act, 2012.

These accounting policies have been applied consistently in all periods presented.

For purposes of reporting under the Companies Act, 2012, the balance sheet in these financial statements is represented by the statement of financial position, and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

c) New standards, interpretations and amendments to standards

New standards, interpretations and amendments to standards adopted during the year

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and relevant to its operations:

Standard/amendment	Effective date – Year beginning on or after	Key requirements	Impact
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	**The key amendments to IAS 1 include:** a. requiring companies to disclose their material accounting policies rather than their significant accounting policies; b. clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and c. clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.	**The impact of the amendment is not material.**
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a Company develops an accounting estimate to achieve the objective set out by an accounting policy.	**The impact of the amendment is not material.**
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	The amendments require an entity to recognise deferred tax on certain transactions (e.g. leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition. It also clarifies that the initial recognition exemption set out in IAS 12 'Income Taxes' does not apply, and entities are required to recognise deferred tax on these transactions. The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.	**The impact of the amendment is not material.**

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

c) New standards, interpretations and amendments to standards (continued)

New standards, interpretations and amendments to standards adopted during the year (continued)

Standard/ amendment	Effective date – Year beginning on or after	Key requirements	Impact
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	The IASB issued additional guidance in IFRS 16 on accounting for sale and leaseback transactions. Previously IFRS 16 only included guidance on how to account for sale and leaseback transactions at the date of the transaction itself. However, the Standard did not specify any subsequent accounting when reporting on the sale and lease back transaction after that date. As a result, without further requirements, when the payments include variable lease payments, there is a risk that modification or change in the leaseback term could result in the seller-lessee recognising a gain on the right-of-use they retained even though no transaction or event would have occurred to give rise to that gain.Consequently, the IASB decided to include subsequent measurement requirements for sale and leaseback transactions to IFRS 16.	**The impact of the amendment will not be material.**
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	1 January 2024	**The amendments elaborate on guidance set out in IAS 1 by:** • clarifying that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period. • stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability. • adding guidance about lending conditions and how these can impact classification. • including requirements for liabilities that can be settled using an entity's own instruments.	**The impact of the amendment is not material.**
Non-current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024	The amendment states that at the reporting date, the entity does not consider covenants that will need to be complied with in the future, when considering the classification of the debt as current or non-current. Instead, the entity should disclose information about these covenants in the notes to the financial statements. The amendments are to enable investors to understand the risk that such debt could become repayable early and therefore improving the information being provided on the long-term debt.	**The impact of the amendment is not material.**
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024	The amendments require additional disclosures that complement the existing disclosures in these IAS 7 and IFRS 7. **They require entities to disclose:** • the terms and conditions of the arrangement. • the amount of the liabilities that are part of the arrangements, breaking out the amounts for which the suppliers have already received payment from the finance providers, and stating where the liabilities are included on the statement of financial position. • ranges of payment due dates. • liquidity risk information. These additional disclosure requirements address investors wanting more visibility around supplier finance arrangements, which in some jurisdictions around the world are better known as reverse factoring arrangements.	**The impact of the amendment is not material.**

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

c) New standards, interpretations and amendments to standards (continued)

New standards, interpretations and amendments to standards adopted during the year (continued)

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2024 or later periods:

Standard/ amendment	Effective date – Year beginning on or after	Key requirements	Impact
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	1 January 2024	It establishes general requirements with the objective of requiring an entity to disclose information about its sustainability-related risks and opportunities and how an entity should prepare and present its sustainability-related financial information. It sets out general requirements for the content and presentation of these disclosures so that the information disclosed is useful to primary users of financial reporting in making decisions about the provision of resources to the entity.	**The impact of the amendment is unlikely to be material.**
IFRS S2 Climate-related disclosures	1 January 2024	It sets out requirements for identifying, assessing and disclosing information about climate-related risks and opportunities that is useful to the primary users of general purpose financial reporting.	**The impact of the amendment is unlikely to be material.**
Lack of exchangeability (Amendments to IAS 21) IFRS 16	1 January 2024	The amendments include both updates to guidance to assist preparers in correctly accounting for foreign currency items and increases the level of disclosure required to help users understand the impact of a lack of exchangeability on the financial statements. The amendments: • introduce a definition of whether a currency is exchangeable, and the process by which an entity should assess this exchangeability. • provide guidance on how an entity should estimate a spot exchange rate in cases where a currency is not exchangeable. • require additional disclosures in cases where an entity has estimated a spot exchange rate due to a lack of exchangeability, including the nature and financial impact of the lack of exchangeability, and details of the spot exchange rate used and the estimation process. The additional disclosure requirements provide useful information about the additional level of estimation uncertainty, and risks arising for the entity due to difficulty in exchangeability.	**The impact of the amendment is unlikely to be material.**

d) Use of significant judgement and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimations and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities.

The key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting date that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities:

FAIR VALUE ESTIMATION

Several assets and liabilities of the Company are either measured at fair value or disclosure is made of their fair values. Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

ALLOWANCE FOR SLOW MOVING, DAMAGED AND OBSOLETE INVENTORY

The Company reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether a provision for obsolescence should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realisable value for such product. Accordingly, provision for obsolescence is made where the net realisable value is less than cost based on best estimates by the management, ageing of inventories and historical movement of the inventory.

USEFUL LIVES OF PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE ASSETS

Management assesses the appropriateness of the useful lives and residual values of property, plant and equipment at the end of each reporting period. When the estimated useful life or residual value of an asset differs from the previous estimates, the change is applied prospectively in determination of the depreciation charge.

DEFERRED TAX

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

CURRENT TAX

Judgment is required in determining the provision for income taxes due to the complexity of the legislation.

There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of additional taxes due. In certain cases, the final tax outcome is different from the current tax position that was initially recorded. Such differences will impact the income tax and the deferred tax provision in the period in which the differences are determined.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

d) Significant accounting judgements and estimates (continued)

LEASES

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Company is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments.

IMPAIRMENT ALLOWANCE FOR EXPECTED CREDIT LOSSES ON TRADE RECEIVABLES

The Company uses a provision matrix to calculate expected credit losses (ECL) for trade receivables. The provision rates are based on days past due for grouping of various customer segments that have similar loss patterns. The matrix is initially based on historical observed default rates. The matrix is adjusted with forward-looking information. The assessment of the correlation between historical default rates and forecast economic conditions and ECLs is a significant estimate.

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgements, in particular for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled ECL scenarios and the relevant inputs used. The Company has made a number of assumptions in calculating ECL for its various financial assets; the Company has elected to apply a 12-month credit loss to derive ECL on its financial assets. Assumptions are to be reviewed on an annual basis.

PROVISIONS

Provisions are inherently based on assumptions and estimates using the best information available. Management makes estimates for the provisions, based on the historical data available and reassesses them at the end of every reporting period.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company reviews its non-financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management makes judgements as to whether there are any conditions that indicate potential impairment of such assets.

e) Financial instruments

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price when the fair value of financial instruments at initial recognition differs from the transaction price.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

MEASUREMENT CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The Company classifies and measured its trading portfolio at FVTPL and also may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and are derivative instruments or the fair value designation is applied.

DETERMINATION OF FAIR VALUE

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date. The Company considers markets as active only if there are enough trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

Level 2 financial instruments – Those where the inputs that are used for valuation are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads.

In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Company will classify the instruments as Level 3.

Level 3 financial instruments – Those that include one or more unobservable inputs that are significant to the measurement as a whole.

The Company periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Company's financial instruments such as credit risk, own credit and/or funding costs. Therefore, the Company applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Company estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. The Company evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

RECEIVABLES AND FINANCIAL INVESTMENTS

The Company measures receivables and other financial assets at amortised cost only if both of the following conditions are met:

i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

ii) 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.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

BUSINESS MODEL ASSESSMENT

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

Considerations are made based on the following criteria:

i) The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed.

ii) How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

iii) The expected frequency, value and timing of sales are also important aspects of the Company' assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Receivables and financial investments

THE SPPI TEST

As a second step of its classification process, the Company assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Company cannot sell or pledge the original asset other than as security to the eventual recipient; and
- The Company must remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Company considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where 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 a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9's impairment requirements use forward-looking information to recognise ECL. Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI. The Company considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime ECL. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators, and forward-looking information to calculate the ECL using a provision matrix. For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

e) Financial instruments (continued)

WRITE OFF

The gross carrying amount of financial assets is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company has a policy of writing off the gross carrying amount based on historical experience of recoveries of similar assets. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities to comply with the Company's procedure for recovery of amounts due.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES

The Company's financial liabilities include borrowings and trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at FVTPL. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains and losses recognised in profit or loss (other than derivative financial instruments that are designated as effective hedging instruments).

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

f) Property, plant, equipment and right-of-use assets

RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour; any other costs directly attributable to bringing assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located; and, capitalised borrowing costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as a separate item (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit and loss.

SUBSEQUENT COSTS

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

DEPRECIATION

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write down the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Company. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised. Refer item (q) below on leases for detailed policies for right-of-use assets.

Depreciation is calculated on a straight-line basis (prorated over the useful life) at annual rates estimated to write off the carrying values of assets over their expected useful lives. The annual depreciation rates or life in use are:

Standard/amendment	Effective date – Year beginning on or after	Key requirements
Buildings	Straight line	Lower of 4% and lease period of land the building stands on
Motor vehicles	Straight line	25.00%
Tools and equipment	Straight line	25.00%
Computers	Straight line	33.30%
Furniture and fittings	Straight line	25.00%
Plant and machinery	Straight line	10.00%
Right-of-use assets	Straight line	3–5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

g) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets comprise:

- Computer software, which is amortised over its economic useful life of three years.

h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and inventory, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets/CGU.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

i) Inventories

Inventories comprise mainly raw materials, work-in-progress, finished goods, spares and supplies. They are stated at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis including transport costs, handling costs, duties and other costs incurred in bringing the inventories to their present location and condition.
- Finished goods and work-in-progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Any write down to net realisable value is recognised in profit or loss in the period it is determined.

j) Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

A majority of the Company`s employees are eligible for annual leave. The Company also contributes on its employees' behalf to the National Social Security Fund (NSSF). Provisions for annual leave, long service rewards and contributions to NSSF are charged to profit or loss as incurred. Any differences between the charge to profit or loss and the NSSF contributions payable is recorded in the statement of financial position under other payables, while separate provisions are made for leave pay and long service awards.

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

DEFINED CONTRIBUTION PLANS

The Company operates a defined contribution scheme for Directors. The contribution scheme is funded through contributions made by the Company. The Company's contributions are charged to the profit or loss statement in the year which they relate.

The Company and all its employees contribute to the NSSF, which is a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays a fixed contribution to a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Company and employees.

The Company's contributions to the defined contribution scheme are charged to the statement of profit or loss and other comprehensive income in the year which they fall due.

k) Tax

CURRENT INCOME TAX

Taxation is provided in the statement of comprehensive income on the basis of the results included therein adjusted in accordance with the provisions of the Income Tax Act (Cap. 340). Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date. Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income.

DEFERRED TAX

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income 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 reassessed 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.

Deferred income 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 or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised in other comprehensive income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

VALUE ADDED TAX (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of goods and services is not recoverable from Uganda Revenue Authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense for the item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

l) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

m) Capital grant

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Company receives non-monetary grants, the asset and that grant are recognised at fair value and released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

n) Revenue from contracts with customers

Revenue arises mainly from the sale of ARVs, ACTs and other pharmaceutical products. To determine whether to recognise revenue, the Company follows a five-step process:

- Identifying a contract with the customer;
- Identifying performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/as performance obligation(s) are satisfied.

The Company often enters into transactions involving a range of the Company's products and services. In all cases, the total transaction price is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price excludes any amounts collected on behalf of third parties.

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

2. MATERIAL ACCOUNTING POLICIES (CONTINUED)

n) Revenue from contracts with customers (continued)

SALE OF GOODS

Revenue from the sale of goods is recognised when or as the Company transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt of goods or services by the customer.

When such items are either customised or sold together with a significant element of service, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Company has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the service is rendered based on estimation of work done. Revenue from the sale of goods is recognised upon the passage of title to the customer, which generally coincides with their delivery and acceptance. Revenue is not recognised to the extent there are significant uncertainties regarding recovery of the consideration due and associated costs or the possible return of goods.

o) Dividend

The Company recognises a liability to make cash distributions to shareholders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per Company policy, a final distribution is authorised when it is approved by the shareholders. An interim dividend may be declared at the discretion of the Directors. The dividend is recognised directly in equity and recorded as a liability until paid.

p) Fair value measurement

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions
- Quantitative disclosures of fair value measurement hierarchy
- Property, plant, equipment and right-of-use assets under the cost model
- Financial instruments (including those carried at amortised cost)

q) Leases

THE COMPANY AS A LESSEE

A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company.
- The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- The Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

MEASUREMENT AND RECOGNITION OF LEASES AS A LESSEE

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been disclosed separately.

r) Share capital and dividend

Dividends on the ordinary shares are charged to equity in the year in which they are declared and when payment becomes a legal obligation. Proposed dividends are disclosed in the notes.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Senior management is responsible for developing and monitoring the Company's risk management policies and report regularly to the Board of Directors on their activities.

The Company's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others. The risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

The Board Audit and Risk Committee (ARC) oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The ARC is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and *ad hoc* reviews of the Company's risk management controls and procedures, the results of which are reported to ARC. The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables and lease liabilities.

The main risks arising from the Company's financial instruments are liquidity risk, market risk and credit risk. The Company has policies for managing financial risks as summarised below:

a) Market risk

i) Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases by the Company in currencies other than its functional currency (Shs). When the need arises for foreign currency, the Company purchases its requirements in the open market, and any exchange gains or losses are immediately posted to profit or loss. Some of the Company's sales are in USD. The proceeds from US Dollar sales are used to pay for liabilities denominated in US Dollars as much as is practicable. Otherwise, the Company does not engage in currency derivatives or other measures of managing foreign currency risk.

At March 31, 2024	USD	Shs '000
Financial assets		
Cash at bank	3,370,572	13,111,525
Trade and other receivables	8,664,247	33,703,921
	12,034,819	46,815,446
Financial liabilities		
Trade and other payables	2,406,999	9,363,225
Lease liabilities	73,279	285,054
	2,480,277	9,648,279
Net currency exposure – Assets	9,554,542	37,167,167
At March 31, 2023		
Financial assets		
Cash at bank	1,178,413	4,466,185
Trade and other receivables	14,790,627	56,056,477
	15,969,040	60,522,662
Financial liabilities		
Trade and other payables	2,782,912	10,547,237
Due to related parties	3,071,898	11,642,492
Lease liabilities	30,944	117,278
	5,885,754	22,307,007
Net currency exposure – Assets	10,083,287	38,215,655

The analysis below summarises the post-tax effect on profit/(loss) and components of equity, if the currency had weakened/strengthened by 1% against the USD, mainly as a result of foreign exchange gains or losses on translation of USD denominated assets and liabilities with all other variables held constant.

	2024 Shs '000	2023 Shs '000
+1%	(260,170)	(267,510)
-1%	260,170	267,510

ii) Interest rate risk

The Company's interest-bearing financial instruments include a bank loan and bank overdraft. These are at variable rates and are therefore exposed to cash flow interest rate risk. The Company regularly monitors financing options available to ensure optimal interest rates are obtained.

The analysis below summarises the post-tax effect on profit/(loss) and components of equity, if interest rates on Shs denominated borrowings had been 1% higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings with all other variables held constant.

	2024 Shs '000	2023 Shs '000
+1%	–	(152,773)
-1%	–	152,773

b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, other receivables and balances with banks.

The Company manages its credit risk by only trading with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to minimise the Company's exposure to bad debts.

Credit risk on deposits with banking institutions is managed by dealing with institutions with good credit ratings. The maximum exposure to credit risk is equivalent to the bank balances and trade and other receivables balance as at the end of the year as indicated below:

	2024 Shs '000	2023 Shs '000
Trade receivables (note 18)	19,741,174	48,738,010
Cash at bank (note 19)	53,449,967	10,810,923
	73,191,141	59,548,933

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

b) Credit risk (continued)

The Company's major customers are National Medical Stores (Government of Uganda), sovereign customers, Global Fund to Fight AIDS, Tuberculosis and Malaria and other private customers. The concentration of credit risk of the Company's major customers is as follows:

	2024 Shs '000	2023 Shs '000
National Medical Stores (Government of Uganda)	**17,849,869**	29,010,264
Other sovereign customers	**8,941,924**	17,633,676
Multilateral agencies	**221,574**	7,201,534
Private market customers	**4,835,309**	6,716,492
	31,848,676	60,561,966

Expected Credit Loss (ECL) for trade receivables are determined for each reporting period using a single loss rate approach. Under the loss rate approach, the Company develops loss-rate statistics based on the amounts collected over the life of the financial assets rather than using separate probability of default and loss given default statistics. The Company then adjusts these historical credit loss trends for current conditions and expectations about the future. The loss rates are based on the respective customer categories. The calculation reflects a simple average of all loss rates per period, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Company does not hold collateral as security.

The ECL for the other financial assets are generally determined using expected credit loss rates derived from the prevailing credit ratings of the counter parties. The determination of ECL reflects the probability-weighted outcome, time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and expected future economic conditions. No other financial assets were in default (2023: None).

Set out below is the credit risk exposure arising from the Company's trade and other receivables using a single loss rate approach:

	2024			
	Gross carrying amount Shs '000	Weighted Average loss rates %	Expected credit loss Shs '000	Net carrying amount Shs '000
Trade receivables				
Sovereign customers	**26,791,793**	**33.70%**	**9,028,711**	**17,763,082**
Multilateral agencies	**221,574**	**0.0%**	**–**	**221,574**
Private market customers	**4,835,309**	**69.06%**	**3,339,130**	**1,496,179**
	31,848,677	**38.83%**	**12,367,841**	**19,480,836**
Other financial assets				
Advance payments to suppliers	**6,823,445**	**37.69%**	**2,571,935**	**4,251,510**
VAT recoverable	**2,415,294**	**0.0%**	**–**	**2,415,294**
Staff advances	**2,703**	**0.0%**	**–**	**2,703**
Other receivables	**260,338**	**0.0%**	**–**	**260,338**
Cash at bank	**53,449,967**	**0.0%**	**–**	**53,449,967**
	62,951,747	**4.09%**	**2,571,935**	**60,379,812**
Total financial assets	**94,800,424**	**15.76%**	**14,939,776**	**79,860,648**

	2023			
	Gross carrying amount Shs '000	Weighted Average loss rates %	Expected credit loss Shs '000	Net carrying amount Shs '000
Trade receivables				
Sovereign customers	42,508,556	20.69%	8,796,610	33,711,946
Inter-company customers	4,135,384	0.00%	–	4,135,384
Multilateral agencies	7,201,534	0.00%	–	7,201,534
Private market customers	6,716,492	45.10%	3,029,063	3,687,429
	60,579,327	**19.53%**	**11,825,673**	**48,736,293**
Other financial assets				
Advance payments to suppliers	10,203,908	23.57%	2,405,181	7,798,727
VAT recoverable	4,859,212	0.00%	–	4,859,212
Staff advances	46,629	0.00%	–	46,629
Other receivables	1,717	0.00%	–	1,717
Cash at bank	10,810,923	0.00%	–	10,810,923
	25,922,389	**9.28%**	**2,405,181**	**23,517,208**
Total financial assets	**86,484,355**	**16.45%**	**14,230,854**	**72,253,501**

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company currently has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations. In addition, an unsecured USD20 million overdraft facility is maintained.

The following tables detail the Company's remaining contractual obligations for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company could be required to pay.

	Up to 3 months Shs '000	3 to 12 months Shs '000	Above 12 months Shs '000	Total Shs '000
As at March 31, 2024				
Lease liabilities	**61,141**	**48,187**	**168,398**	**277,726**
Trade and other payables	**42,958,110**	**–**	**–**	**42,958,110**
	43,019,251	**48,187**	**168,398**	**43,235,836**
As at March 31, 2023				
Lease liabilities	14,532	35,284	67,462	117,278
Trade and other payables	35,462,334	–	–	35,462,334
Term loan	1,800,250	3,600,500	–	5,400,750
	37,277,116	3,635,784	67,462	40,980,362

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (CONTINUED)

d) Capital management

Capital includes equity attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended March 31, 2023 and March 31, 2024.

e) Fair value measurement

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments.

f) Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.
The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes.

As at March 31, 2024, the Company did not hold any financial assets, or financial liabilities, at fair value. The carrying amounts of the financial assets and liabilities, held at amortised cost on the Statement of Financial Position, approximate their fair values as at that date.

4. REVENUE

	2024 Shs '000	2023 Shs '000
Local sales	**169,815,780**	171,873,381
Exports	**95,524,020**	49,592,995
	265,339,800	221,466,376
Revenues mainly relate to the sale of ARVs and ACTs as shown in the table below:		
ARVs	**158,841,994**	160,450,821
ACTs	**100,906,479**	56,617,591
Other	**5,591,327**	4,397,964
	265,339,800	221,466,376

5. COST OF SALES

	2024 Shs '000	2023 Shs '000
Materials consumed	**130,739,655**	121,363,523
Other production overheads	**11,236,114**	10,816,199
Staff expenses (note 8)	**8,495,112**	8,519,190
Depreciation (note 9)	**8,587,253**	8,031,980
Royalties	**3,578,026**	6,255,191
Stock write-off/(write-back)	**6,251,463**	(1,454,700)
(Reversal)/Provision for obsolete stock	**(6,470,122)**	926,405
	162,417,501	154,457,788

6. OTHER INCOME

	2024 Shs '000	2023 Shs '000
Sale of scrap	**72,864**	67,285
Gain on disposal of equipment	**–**	265,811
	72,864	333,096

7. GENERAL AND ADMINISTRATIVE EXPENSES

	2024 Shs '000	2023 Shs '000
Staff expenses (note 8)	**27,376,682**	25,371,248
Advertising and promotions	**14,699,277**	11,187,915
Other administration expenses	**11,019,896**	11,499,693
Office expenses	**3,186,409**	3,093,106
Depreciation (note 9)	**1,526,392**	1,236,659
Amortisation (note 16)	**477,086**	474,448
Bank charges	**571,745**	272,691
Professional fees	**322,709**	739,918
Auditor's remuneration	**113,538**	119,614
	59,293,734	53,995,292

8. STAFF EXPENSES

	2024 Shs '000	2023 Shs '000
Salaries and wages	**21,890,675**	20,693,887
Medical	**2,139,539**	2,046,377
NSSF contribution	**2,405,699**	2,128,225
Staff welfare	**1,484,514**	1,285,448
Catering	**1,917,226**	1,633,668
Provision of staff bonus	**1,906,981**	1,731,267
Provident fund	**3,915,655**	3,858,236
Leave provision charge	**183,277**	157,703
Training costs	**13,399**	339,356
Staff recruitment costs	**14,829**	16,271
	35,871,794	33,890,438
Staff costs are allocated as follows:		
Cost of sales (note 5)	**8,495,112**	8,519,190
General and administrative expenses (note 7)	**27,376,682**	25,371,248
	35,871,794	33,890,438

9. DEPRECIATION

	2024 Shs '000	2023 Shs '000
Depreciation is allocated as follows:		
Cost of sales (note 5)	**8,587,253**	8,031,980
General and administrative expenses (note 7)	**1,526,392**	1,236,659
	10,113,645	9,268,639

10. FINANCE INCOME

	2024 Shs '000	2023 Shs '000
Interest income from bank deposits	**2,596,882**	625,317
Net foreign exchange gain	**2,522,194**	3,218,663
	5,119,076	3,843,980

11. FINANCE COSTS

	2024 Shs '000	2023 Shs '000
Interest expense on term loans	**131,841**	744,359
Interest expense on bank overdraft	**272,139**	293,227
Interest expense on lease liabilities	**28,868**	30,644
	432,848	1,068,230

12. PROFIT BEFORE TAX

	2024 Shs '000	2023 Shs '000
Profit before tax is stated after charging:		
Depreciation	**10,113,645**	9,268,639
Net foreign exchange gains	**(2,522,194)**	(3,218,663)
Amortisation	**477,086**	474,448
Auditor's remuneration	**113,538**	119,614
Gain on disposal of property, plant, equipment and right-of-use assets	**–**	265,811

13. TAXATION

a) Amounts recognised in statement of profit or loss

	2024 Shs '000	2023 Shs '000
Current tax	**17,004,313**	6,583,335
Deferred tax	**(919,149)**	6,213,326
	16,085,164	12,796,661

RECONCILIATION OF TAX EXPENSE

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2024 Shs '000	2023 Shs '000
Profit before tax	**47,845,489**	31,783,379
Tax calculated at the statutory income tax rate of 30%	**14,353,647**	9,535,014
Non-deductible expenses	**1,734,347**	2,823,290
Prior period (over)/under provision	**(2,830)**	438,357
	16,085,164	12,796,661

b) Deferred tax liability	**(155,083)**	(1,074,232)

Deferred income tax is calculated on all temporary differences using the liability method at the applicable rate of 30%. The movement on the deferred tax account is as follows:

Reconciliation of deferred tax

	2024 Shs '000	2023 Shs '000
At the beginning of year	**(1,074,232)**	5,139,094
Temporary differences on property, plant, equipment and right-of-use assets	**157,531**	(575,922)
Temporary difference on lease liabilities	**(11,757)**	3,511
Temporary difference on provisions	**389,445**	(880,398)
Temporary difference on forex	**218,450**	163,211
Temporary differences on ECL	**162,650**	(4,485,371)
Prior period error	**2,830**	(438,357)
	(155,083)	(1,074,232)

c) Current tax recoverable

Income tax receivable	**287,392**	2,104,114

At March 31, 2024, Shs 287,392 thousand (2023: Shs 2,104,114 thousand) was recoverable from Uganda Revenue Authority resulting from excess provisional income tax payments made during the year over the final assessed tax liabilities at the end of reporting period. The amount will be offset against future income tax obligations.

14. PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Right-of-use asset Shs '000	Buildings Shs '000	Plant and machinery Shs '000	Furniture and fittings Shs '000	Motor vehicles Shs '000	Computers Shs '000	Tools and equipment Shs '000	Total Shs '000
COST								
Balance at April 1, 2022"	3,585,171	33,605,181	82,573,633	1,754,861	3,315,945	3,631,766	6,135,213	134,601,770
Additions	–	–	4,642,212	41,718	1,989,387	667,572	543,132	7,884,021
Transfer from CWIP (Note 15)	–	219,255	2,531,265	–	–	11,638	944,535	3,706,693
On disposals	–	–	(600,472)	–	(1,805,687)	(3,001)	–	(2,409,160)
Balance at March 31, 2023	3,585,171	33,824,436	89,146,638	1,796,579	3,499,645	4,307,975	7,622,880	143,783,324
Balance at April 1, 2023	**3,585,171**	**33,824,436**	**89,146,638**	**1,796,579**	**3,499,645**	**4,307,975**	**7,622,880**	**143,783,324**
Additions	**271,080**	**141,563**	**410,816**	**22,837**	**–**	**88,816**	**731,277**	**1,666,389**
Transfer from CWIP (Note 15)	**–**	**58,027**	**2,249,023**	**3,963**	**–**	**763**	**113,346**	**2,425,122**
On disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at March 31, 2024	**3,856,251**	**34,024,026**	**91,806,477**	**1,823,379**	**3,499,645**	**4,397,554**	**8,467,503**	**147,874,835**
ACCUMULATED DEPRECIATION								
Balance at April 1, 2022	550,081	10,780,551	47,848,921	1,385,854	2,224,643	2,994,294	3,762,374	69,546,718
Depreciation charge for the year	173,478	1,351,319	5,330,876	161,534	460,115	435,367	1,355,950	9,268,639
On disposals	–	–	(562,850)	–	(1,805,687)	(3,001)	–	(2,371,538)
Balance at March 31, 2023	723,559	12,131,870	52,616,947	1,547,388	879,071	3,426,660	5,118,324	76,443,819
Balance at April 1, 2023	**723,559**	**12,131,870**	**52,616,947**	**1,547,388**	**879,071**	**3,426,660**	**5,118,324**	**76,443,819**
Depreciation charge for the year	**117,863**	**1,354,495**	**5,894,361**	**144,283**	**820,672**	**443,255**	**1,338,716**	**10,113,645**
On disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at March 31, 2024	**841,422**	**13,486,365**	**58,511,308**	**1,691,671**	**1,699,743**	**3,869,915**	**6,457,040**	**86,557,464**
NET CARRYING VALUE								
Balance at March 31, 2024"	**3,014,829**	**20,537,661**	**33,295,169**	**131,708**	**1,799,902**	**527,639**	**2,010,463**	**61,317,371**
Balance at March 31, 2023	2,861,612	21,692,566	36,529,691	249,191	2,620,574	881,315	2,504,556	**67,339,505**

The capital work-in-progress (CWIP) mainly comprises the cost of machinery under installation and ongoing construction work at the Luzira factory. The analysis of CWIP has been summarised in note 15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. CAPITAL WORK-IN-PROGRESS

	Right-of-use asset Shs '000	Buildings Shs '000	Plant and machinery Shs '000	Motor vehicles Shs '000	Computers Shs '000	Tools and equipment Shs '000	Total Shs '000
Balance at April 1, 2022	229,054	2,610,543	–	11,233	865,134	–	3,715,964
Additions	540,726	2,289,702	3,963	1,170	177,247	–	3,012,808
Transfer to property, plant and equipment	(219,255)	(2,531,265)	–	(11,638)	(944,535)	–	(3,706,693)
Balance at March 31, 2023	550,525	2,368,980	3,963	765	97,846	–	3,022,079
Balance at April 1, 2023	**550,525**	**2,368,980**	**3,963**	**765**	**97,846**	**–**	**3,022,079**
Additions	**397,213**	**903,117**	**2,733**	**131,603**	**169,009**	**858,662**	**2,462,337**
Transfer to property, plant and equipment	**(58,027)**	**(2,249,023)**	**(3,963)**	**(763)**	**(113,346)**	**–**	**(2,425,122)**
Balance at March 31, 2024	**889,711**	**1,023,074**	**2,773**	**131,605**	**153,509**	**858,662**	**3,059,294**

16. INTANGIBLE ASSETS

	2024 Shs '000	2023 Shs '000
Cost		
At start of year	**3,837,256**	3,793,963
Additions	**26,692**	43,293
At end of year	**3,863,948**	3,837,256
Accumulated amortisation		
Amortisation for the year	**477,086**	474,448
Net carrying value	**451,018**	901,412

17. INVENTORIES

	2024 Shs '000	2023 Shs '000
Raw materials	**21,806,083**	19,147,916
Finished goods	**26,623,171**	20,339,370
Work-in-progress	**12,008,154**	14,788,111
Packing materials	**7,269,158**	8,019,137
Stocks in transit	**23,959,216**	8,549,869
Spares and consumables	**1,124,054**	1,035,093
	92,789,836	71,879,496
Less provision for obsolete inventories	**(6,470,122)**	(5,543,717)
	86,319,714	66,335,779

18. TRADE AND OTHER RECEIVABLES

	2024 Shs '000	2023 Shs '000
Financial instruments		
Trade receivables	**31,848,677**	60,561,966
Less: ECL	**(12,367,841)**	(11,825,673)
	19,480,836	48,736,293
Other receivables	**260,338**	1,717
Non-financial instruments		
Advance payments to suppliers	**4,251,510**	7,798,727
VAT recoverable	**2,415,294**	4,859,212
Prepayments	**687,953**	1,509,021
Staff advances	**2,703**	64,027
	27,098,634	**62,951,599**

	2024 Shs '000	2023 Shs '000
Movement in ECL		
Opening balance	**11,825,673**	26,776,910
Impairment/(Reversal of impairment) allowance	**542,168**	(15,661,237)
Closing balance	**12,367,841**	11,825,673

Included in the reversal of the impairment allowance for year ending March 31, 2023 was an amount of Shs 14.7 billion that was recorded on collection of overdue amounts from the Government of Zambia. This receivable had been fully impaired in earlier years.

The analysis below shows the credit quality and the maximum exposure to credit risk based on the Company's credit rating system. These amounts have not been staged since the Company has used the simplified approach to assess impairment. The gross trade receivables are graded as follows:

	2024 Shs '000	2023 Shs '000
Grading of receivables		
High grade (0–90 days)	**19,503,660**	47,168,860
Standard grade (91–365 days)	**62,172**	1,482,971
Impaired over 365 days	**3,254,134**	3,346,122
Individually impaired and over 365 days	**9,028,711**	8,564,013
Total	**31,848,677**	60,561,966

18. TRADE AND OTHER RECEIVABLES (CONTINUED)

The movement in gross trade receivables (including amounts due from related parties) is as follows:

	2024 Shs '000	2023 Shs '000
Opening balance	**60,561,966**	100,335,106
Sales during the year	**265,339,800**	221,466,376
Receipts	**(294,053,089)**	(261,239,516)
Closing balance	**31,848,677**	60,561,966

EXPECTED CREDIT LOSS ASSESSMENT FOR CUSTOMERS

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

	Weighted average loss rate	Gross carrying amount Shs '000	Loss allowance Shs '000	Credit impaired
As at March 31, 2024				
Current (not past due)	0.10%	19,038,230	19,155	No
1–30 days past due	3.18%	207,561	6,597	No
31–60 days past due	1.35%	249,469	3,376	No
61–90 days past due	50.94%	8,400	4,279	No
90–180 days past due	66.60%	29,766	19,824	No
180–365 days past due	98.02%	32,406	31,765	Yes
More than 365 days past due	100.00%	12,282,845	12,282,845	Yes
		31,848,677	**12,367,841**	
As at March 31, 2023				
Current (not past due)	0.07%	45,861,478	34,032	No
1–30 days past due	6.15%	648,396	39,884	No
31–60 days past due	9.18%	555,295	50,999	No
61–90 days past due	34.57%	103,691	35,846	No
90–180 days past due	3.89%	1,482,971	57,714	Yes
More than 365 days past due	97.46%	11,910,135	11,607,198	Yes
		60,561,966	11,825,673	

19. CASH IN HAND AND AT BANK

	2024 Shs '000	2023 Shs '000
Cash in hand	**1,215**	1,648
Cash at bank	**53,449,967**	10,810,923
	53,451,182	10,812,571

The bank balances are held at Absa Bank Uganda Limited (Absa) and Standard Chartered Bank (U) Limited (Standard Chartered) and, to the extent that the Directors are able to measure any credit risk of these assets, it is deemed to be limited. Accordingly, the Company has not recognised an impairment allowance as at March 31, 2024 (2023: Nil).

The overdraft facility was obtained from Absa for cash management purposes and has a limit of USD 10 million (2023: USD 10 million). The interest rate is 4% p.a above three months Secured Overnight Financing Rate (SOFR). The Standard Chartered facility was closed during the 2024 year.

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

	2024 Shs '000	2023 Shs '000
US dollar	**13,111,525**	4,466,185
Shs	**40,338,442**	6,344,738
	53,449,967	10,810,923

The bank balances are held at Absa Bank Uganda Limited (Absa) and Standard Chartered Bank (U) Limited (Standard Chartered) and, to the extent that the Directors are able to measure any credit risk of these assets, it is deemed to be limited. Accordingly, the Company has not recognised an impairment allowance as at March 31, 2024 (2023: Nil).

The overdraft facility was obtained from Absa for cash management purposes and has a limit of USD 10 million (2023: USD 10 million). The interest rate is 4% p.a above three months Secured Overnight Financing Rate (SOFR). The Standard Chartered facility was closed during the 2024 year.

20. SHARE CAPITAL

a) Ordinary shares – authorised, issued and fully paid-up

	2024 Shs '000	2023 Shs '000
Number of shares	**3,651,909,200**	3,651,909,200
Nominal value per share (Shs)	**12.5**	12.5
Authorised, issued and fully paid up capital (Shs '000)	**45,648,865**	45,648,865

On October 5, 2016, the shareholders pursuant to Section 71 and Article 45(b) of Table A of the Companies Act, 2012 and Article 20(b) of the Company's Articles of Association, resolved that the par value of each share in the Company be adjusted by way of a share split from Shs 5,000 to Shs 12.5 per share and the number of shares was increased accordingly from 9,129,773 to 3,651,909,200 ordinary shares.

All ordinary shares rank equally with regard to the Company's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the Company's general meetings.

20. SHARE CAPITAL (CONTINUED)

b) Shareholding

The top ten direct shareholders in the Company are shown in the table below. As part of Africa Capitalworks' majority acquisition on 14 November 2023, Emmanuel Katongole, George Baguma and Frederick Mutebi Kitaka indirectly acquired additional shareholding in the Company of 1.5% each.

	2024		2023	
	Shares	Percentage	Shares	Percentage
Africa Capitalworks SSA 3	1,869,170,684	51.18%	–	0.00%
Meditab Holdings Limited	–	0.00%	1,864,299,646	51.05%
Amistad Limited	420,402,713	11.51%	420,402,713	11.51%
Capitalworks SSA 1	407,152,191	11.15%	407,152,191	11.15%
Government Employees Pension Fund	312,000,000	8.54%	312,000,000	8.54%
NSSF	269,361,386	7.38%	269,361,386	7.38%
Emmanuel Katongole	101,933,042	2.79%	101,933,042	2.79%
Frederick Mutebi Kitaka	101,933,042	2.79%	101,933,042	2.79%
George Baguma	101,933,042	2.79%	101,933,042	2.79%
Cipla (EU) Limited	–	0.00%	4,871,038	0.13%
Joseph Yiga	4,000,000	0.11%	4,000,000	0.11%
Others	64,023,100	1.76%	64,023,100	1.75%
	3,651,909,200	100.00%	3,651,909,200	100.00%

b) Spread of shares

Holding at March 31, 2024	No. of investors	No. of shares held	Percentage holding
Between 0 and 1,000 Shares	451	391,316	0.01%
Between 1,001 and 5,000 Shares	957	2,668,238	0.07%
Between 5,001 and 10,000 Shares	402	3,424,533	0.09%
Between 10,001 and 1,000,000 Shares	738	46,418,013	1.27%
Above 1,000,001 Shares	17	3,599,007,100	98.55%
	2,565	3,651,909,200	100.00%
Holding at March 31, 2023			
	457	398,126	0.01%
Between 0 and 1,000 Shares	960	2,673,679	0.07%
Between 1,001 and 5,000 Shares	402	3,424,200	0.09%
Between 5,001 and 10,000 Shares	747	49,406,095	1.36%
Between 10,001 and 1,000,000 Shares	15	3,596,198,200	98.47%
Above 1,000,001 Shares			
	2,581	3,651,909,200	100.00%

c) Earnings per share

	2024	2023
Profit attributable to ordinary equity holders of the Company (Shs '000)	31,760,325	18,986,718
Weighted average number of ordinary shares in issue during the year	3,651,909,200	3,651,909,200
	8.70	5.20

Diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

21. RESERVE

On December 21, 2005, the Company leased land at Luzira Industrial Park from Uganda Investment Authority for an initial period of five years. The lease was subsequently extended to 99 years after notification by the Company to the lessor of its intention to renew the lease. The leasehold land was valued at an initial sum of Shs 2.275 billion.

The cost of the lease was waived by the Government of Uganda and the valuation of the land was therefore recognised as a capital grant in line with the Company's accounting policy.

The Directors elected to measure the lease as a separate reserve under equity.

22. DIVIDENDS

The Board of Directors has recommended the declaration of a final dividend of Shs 5.7 per share for the year ended March 31, 2024 (2023: final dividend of Shs 2.5 per share). The first interim dividend in the Company's history of Shs 1.6 per share was paid in March 2024.

23. TERM LOAN

	2024 Shs '000	2023 Shs '000
Standard Chartered Bank	–	5,400,750

The Company obtained a term loan from Standard Chartered Bank (U) Limited of USD 9,500,000 at a weighted average interest rate of 5.87% p.a in November 2020 to refinance capital expenditure originally financed using short term funds. The loan was unsecured and was repaid during the year.

23. TERM LOAN (CONTINUED)

The movement in bank borrowings is as follows:

	Term loan Shs '000	Bank overdraft Shs '000	Total Shs '000
Year ended March 31, 2024			
At start of year	**5,400,750**	**–**	**5,400,750**
Interest charged to profit or loss	**131,841**	**272,139**	**403,980**
Foreign exchange gain	**(90,250)**	**–**	**(90,250)**
Cash flows:			
Interest paid	**(131,841)**	**(272,139)**	**(403,980)**
Repayment of bank borrowings	**(5,310,500)**		**(5,310,500)**
At end of year	**–**	**–**	**–**

	Term loan Shs '000	Bank overdraft Shs '000	Total Shs '000
Year ended March 31, 2023			
At start of year	25,756,875	–	25,756,875
Interest charged to profit or loss	744,359	293,227	1,037,586
Foreign exchange gain	1,068,250	–	1,068,250
Cash flows:			
Interest paid	(744,359)	(293,227)	(1,037,586)
Repayment of bank borrowings	(21,424,375)	–	(21,424,375)
At end of year	5,400,750	–	5,400,750

The exposure of the Company's bank borrowings to interest rate changes at the reporting dates are:

	2024 Shs '000	2023 Shs '000
6 months or less	**–**	3,600,500
6 – 12 months	**–**	1,800,250
	–	5,400,750

24.RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Leasehold land Shs '000	Leased motor vehicles Shs '000	Total Shs '000
a) Right-of-use assets			
Year ended March 31, 2023			
At start of year	2,776,233	258,857	3,035,090
Depreciation	–	(173,478)	(173,478)
At end of year	**2,776,233**	**85,379**	**2,861,612**
Year ended March 31, 2024			
At start of year	**2,776,233**	**85,379**	**2,861,612**
Additions	**–**	**271,080**	**271,080**
Depreciation	**–**	**(117,863)**	**(117,863)**
At end of year	**2,776,233**	**238,596**	**3,014,829**
b) Lease liabilities			
At March 31, 2024			
Current	–	109,328	109,328
Non-current	–	168,398	168,398
At end of year	**–**	**277,726**	**277,726**
Cash outflows for leases during the year comprised:			
Payments for principal portion of lease liability	–	173,202	173,202
Payments of interest on lease liabilities	–	28,868	28,868
At end of year	**–**	**202,070**	**202,070**
At March 31, 2023			
Current	–	49,816	49,816
Non-current	–	67,462	67,462
At end of year	**–**	**117,278**	**117,278**
Cash outflows for leases during the year comprised:			
Payments for principal portion of lease liability	–	148,090	148,090
Payments of interest on lease liabilities	–	30,644	30,644
At end of year	**–**	**178,734**	**178,734**

24.RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

c) Reconciliation of lease liabilities arising from financing activities:

	Leasehold land Shs '000	Leased motor vehicles Shs '000	Total Shs '000
At start of year	**–**	**117,278**	**117,278**
New lease		271,080	271,080
Charged to statement of profit or loss:			
Interest on finance lease liabilities	–	28,868	28,868
Foreign exchange loss	–	37,458	37,458
Cash flows:			
Operating activities	–	(28,868)	(28,868)
Cash flows from financing activities	–	(148,090)	(148,090)
At end of year	**–**	**277,726**	**277,726**

The Company leases land and motor vehicles. The leases for the land are for 99 years. The leases for the motor vehicles are for periods of three and four years.

25. TRADE AND OTHER PAYABLES

	2024 Shs '000	2023 Shs '000
Financial instruments		
Trade payables	**30,521,744**	14,866,274
Due to related parties	**1,494,548**	11,660,289
Non-financial instruments		
Advances from customers	**818,295**	–
Accruals	**6,191,500**	8,917,848
Withholding tax payable	**302,599**	17,923
	43,351,834	35,462,334

26. RELATED PARTIES

The Company was previously controlled by Meditab Holdings Limited, a wholly owned subsidiary of Cipla, incorporated in Mauritius, which owned 51.05% of the Company's shares. Its remaining 48.95% is held principally by four institutional investors. Cipla sold all its shares in the Company on November 14, 2023 to Africa Capitalworks SSA 3 and therefore ceased to be a related party on that date. The related party transactions have been recorded up to that date. There are no related party transactions with Africa Capitalworks SSA 3.

The exposure of the Company's bank borrowings to interest rate changes at the reporting dates are:

a. The following were the key related parties:

Name	Nature of relationship
Meditab Holdings Limited, Mauritius	– Parent company (sold its stake on November 14, 2023)
Meditab Specialties Private Limited, India	– Holding Company of Meditab Holdings Limited
Sitec Labs Private Limited, India	– Subsidiary of Meditab Specialties Private Limited, India
Cipla Kenya Limited	– Subsidiary of Cipla
Cipla Medpro South Africa (Pty) Limited	– Subsidiary of Cipla
Cipla Limited, India	– Ultimate Holding Company of Meditab Holdings Limited

ii) The value and nature of transactions with related parties during the year were as follows:

Related party	Nature of transactions	2024 Shs '000	2023 Shs '000
Cipla Limited	Purchase of raw materials	**–**	1,691745
	Purchase of finished goods	**1,126,552**	–
	Technical services fees	**3,882,179**	6,255,191
	IT services	**223,178**	667,448
Cipla Kenya Limited	Purchase of finished goods	**28,841**	10,008
	Sale of goods	**22,325**	–
Sitec Labs Private Limited	Laboratory services	**–**	232
Cipla Medpro South Africa (Pty) Limited	Sale of ARVs	**7,618,953**	27,101,518
	Purchase of machinery	**–**	103,411
	Other technical services	**7,014**	–
Total transactions with related parties		**12,909,042**	35,829,553

27. RELATED PARTIES

The following were the balances as at March 31:

a) Due from related parties

	2024 Shs '000	2023 Shs '000
Cipla Medpro South Africa (Pty) Limited	–	1,879,721
Cipla Limited	–	2,254,865
	–	4,134,586

Amounts due from related parties in 2023 related to outstanding balances from sales of products. These amounts were unsecured, interest free and receivable within 30 to 60 days.

a) Due to related parties

	2024 Shs '000	2023 Shs '000
Cipla Limited	–	11,642,246
Cipla Medpro South Africa (Pty) Limited	–	17,979
Sitec Labs Private Limited	–	246
	–	11,660,289

Amounts due from related parties in 2023 related to outstanding balances for purchases of raw materials. The amounts were unsecured and interest free.

c) Key management compensation

	2024 Shs '000	2023 Shs '000
Short-term employee benefits	**6,509,169**	6,166,179

28.CONTINGENT LIABILITIES

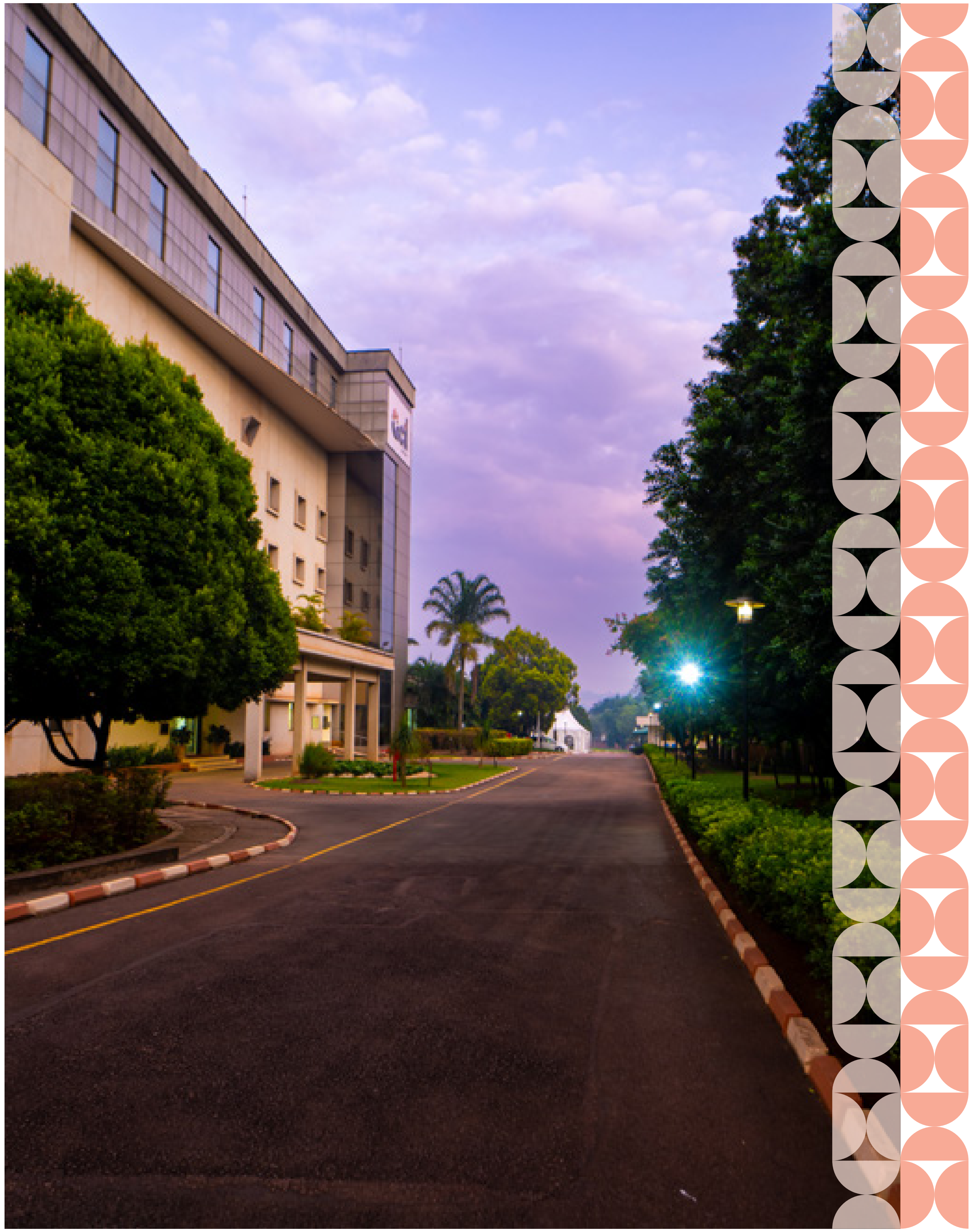
The Company is a defendant in various legal actions. In the opinion of the Directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

29.EVENTS AFTER THE REPORTING PERIOD

Management is not aware of any events after the reporting period and up to the date of this report which requires adjustments to or disclosures in the financial statements.

30.COMPARATIVES

Except as otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.



SUPPLEMENTARY INFORMATION

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **ANNUAL GENERAL MEETING (AGM)** of Quality Chemical Industries Limited (the Company) for the year ended **31 March 2024**, will be held electronically on **Friday, 5 July at 10:00 am** to conduct the following business:

ORDINARY BUSINESS

1. To receive, consider and if deemed fit, pass an ordinary resolution to adopt the Company's audited financial statements for the year ended 31 March 2024 including the reports of the Directors and External Auditor.
2. To receive, consider and if deemed fit, pass an ordinary resolution to adopt the recommendation of the Directors on the declaration of a final dividend of UGX 5.7 per share less withholding tax, for the year ended 31 March 2024.
3. To receive, consider and if deemed fit, pass an ordinary resolution to confirm the appointment and re-election of two Directors, in accordance with the provisions of the Company's Articles of Association.
4. To receive, consider and if deemed fit, pass an ordinary resolution to approve the re-appointment of Grant Thornton as External Auditor of the Company for the 2024/25 financial year and authorise the Board of Directors to set their remuneration.
5. To receive, consider and if deemed fit, pass an ordinary resolution to approve fees payable to Non-Executive Directors for the 2024/25 financial year.
6. To conduct any other business for which due notice will have been received.

By Order of the Board

12 June 2024

PEACE NAMARA

Ag. COMPANY SECRETARY

NOTES

AGM REGISTRATION

1. The AGM shall be held electronically.
2. To participate in the AGM, shareholders should register by following the instructions below.
   i. Dial *284*32# on (Uganda mobile networks) and follow the prompts;
   ii. Send a registration email request to **qcilagm@image.co.ug** or **shareholder@qcil.com**; or
   iii. Follow the registration link circulated to shareholders whose valid email addresses we possess.
3. Registration will start on 12 June 2024 and will close on 3 July 2024 at 5:00pm. For support during the registration process, please call +256 762 260 804/+256 758 336 660 or send an email to **qcilagm@ image.co.ug** or **shareholder@qcil.com**.
4. The AGM will be streamed live at the scheduled time and date to registered shareholders who will receive a link to the event 24 hours before the AGM. Duly registered shareholders and proxies will receive a short message service (SMS/USSD) prompt on their registered mobile numbers 24 hours before the AGM, acting as a reminder of the AGM and providing a link to the live stream. A second SMS/USSD prompt shall be sent one hour ahead of the AGM. In registering to attend the AGM, shareholders will opt to receive these messages. Shareholders may obtain registration support by dialling the helpline number +256 762 260 804/+256 758 336 660 between 9:00 a.m. and 5:00 p.m. from Monday to Friday or sending an email to **qcilagm@image.co.ug**.

PROXIES

5. Shareholders unable to attend the AGM are encouraged to fill in and return a proxy form which can be downloaded from the Company's website at **www.qcil.com**.
6. Duly completed proxy forms should be delivered to the Company Secretary at the Company's physical address or emailed to **qcilagm@ image.co.ug** or **shareholder@qcil.com** at least 48 hours before the scheduled time for the meeting. In default of this, it shall be treated as invalid.

VOTING

7. Shareholders will receive an SMS prompt with instructions on their registered mobile phone number, alerting them to propose and second the resolutions indicated in the AGM Notice.
8. Voting shall be done electronically using the 'Vote' tab on the live stream link and via USSD. All registered shareholders and proxies may vote (when prompted) using the live stream link or the USSD prompts. A poll shall be conducted for all the resolutions indicated in the AGM notice. Results of the resolutions will be announced at the end of the meeting and published on the Company's website at www.qcil.com and on the Uganda Securities Exchange website at **www.use.or.ug**.

SHAREHOLDER QUESTIONS

9. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by sending their written questions by 11:00 am on 3 July 2024, through the following means:
   A. By dialling the USSD codes *284*32# (Uganda mobile networks) or selecting the "Ask Question" option;
   B. By email to **qcilagm@image.co.ug** or **shareholder@qcil.com**; or
   C. By physical delivery or registered post, with a return physical address or email address.

   Shareholders must provide their full details (full names, ID/Passport Number/SCD Account Number) when submitting their questions.
10. Although some questions shall be addressed during the AGM, all responses to the questions raised shall be responded to and published on the Company's website following the conclusion of the AGM.

AGM INFORMATION

11. The Notice of the AGM, annual report, audited financial statements, proxy form and notes to Agenda 3 and 5 will be uploaded onto the Company website at **www.qcil.com**. The reports may also be accessed via the live stream link or the USSD codes *284*32# under the 'Reports' option.

DIVIDENDS

12. If approved at the AGM, the dividend will be paid on or about 31 July 2024, to shareholders registered by close of business on 26 July 2024.
13. Shareholders are urged to contact the Share Registrar or their preferred stockbroker to update their contact and bank details for ease of communication and receipt of dividends.
14. Shareholders who have not received 2022/23 dividends are requested to contact the Share Registrar or email **shareholder@qcil.com**.

COMPANY'S REGISTERED OFFICE

Quality Chemical Industries Limited

Plot 1-7, 1st Ring Road, Luzira Industrial Park

P.O Box 34871, Kampala

Email: **contactus@qcil.com**

SHARE REGISTRAR

SCD Registrars,

4th Floor, Block A, UAP Nakawa Business Park, Plot 3-5 New Port-Bell Road.

Email: registry@use.or.ug

PROXY FORM

A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote on his/her stead. A proxy need not be a member of the Company.

I/We ______________________________ (Name in block letters)

of ______________________________ (address in block letters),

being a shareholder(s) and holder(s) of __________ ordinary shares and entitled to vote hereby appoint,

1. ______________________________

or failing him/her

2. ______________________________

or failing him/her

3. The Chairman of the Annual General Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held via electronic communication on 5 July 2024 starting at 10:00 am and at any adjournment thereof as follows:

AGENDA		VOTES		
		FOR*	AGAINST*	WITHHELD*
1	To receive, consider and if deemed fit, pass an ordinary resolution to adopt the Company's audited financial statements for the year ended 31 March 2024, including the reports of the Directors and External Auditor.			
2	To receive, consider and if deemed fit, pass an ordinary resolution to adopt the recommendation of the Directors on the declaration of a final dividend of Shs 5.7 per share, less withholding tax for the year ended 31 March 2024.			
3	To consider and if deemed fit, pass an ordinary resolution to confirm the appointment and re-election of Directors in accordance with the provisions of the Company's Articles of Association.			
4	To confirm the re-election of Stevens Mwanje as Non-Executive Director.			
5	To confirm the re-election of Dr. Peter Mugyenyi as an Independent Non-Executive Director.			
6	To consider and if deemed fit, pass an ordinary resolution to approve the re-appointment of Grant Thornton as External Auditor of the Company for the 2024/25 financial year and authorise the Board of Directors to set their remuneration.			
7	To consider and if deemed fit, pass an ordinary resolution to receive and approve fees payable to Non-Executive Directors for the 2024/25 financial year.			

** Please indicate a cross or tick for each resolution above, representing how you wish your votes to be cast. The 'abstain' option above is provided to enable you to withhold your vote on any resolution. However, it should be noted that a vote abstained is not a vote and will not be counted in the calculation of the proportion of the votes 'for' and 'against' a resolution.*

** If no options are marked, the proxy can vote as deemed fit.*

Dated this ________ day of __________________, 2024 Signature: ______________________

Name: ______________________ Address: ______________________

Quality Chemical Industries Limited
Plot 1-7, 1st Ring Road, Luzira Industrial Park P.O Box 34871, Kampala-Uganda
Tel: +256 312 341 100
Email: contactus@qcil.com.

www.qcil.com

SHAREHOLDERS' REPORT

ISIN: UG0000000196 LEI: 25490083G9EU7SRI0Y64

SUMMARY OF SHAREHOLDERS AS AT 31 MARCH 2024

NATIONALITY	CATEGORY	NO. OF MEMBERS	NO. OF SHARES	PERCENTAGE HOLDING
Local investors	Corporate	84	281,894,983	7.72%
	Individual	2,363	355,450,777	9.74%
		2,447	**637,345,760**	**17.45%**
Foreign	Corporate	4	3,008,725,588	82.39%
	Individual	114	5,837,852	0.16%
		118	**3,014,563,440**	**82.55%**
Grand Totals:		**2,565**	**3,651,909,200**	**100.00%**

OUR SHARE DISTRIBUTION AS AT 31 MARCH 2024

RANGE ID	DESCRIPTION	NO. OF INVESTORS	NO. OF SHARES HELD	PERCENTAGE HOLDING
1	Between 0 and 1,000 Shares	451	391,316	0.01%
2	Between 1,001 and 5,000 Shares	957	2,668,238	0.07%
3	Between 5,001 and 10,000 Shares	402	3,424,533	0.09%
4	Between 10,001 and 1,000,000 Shares	741	49,418,013	1.35%
5	Above 1,000,001 Shares	14	3,596,007,100	98.47%
	TOTAL	**2,565**	**3,651,909,200**	**100.00%**

TOP 10 LOCAL SHAREHOLDERS AS AT 31 MARCH 2024

	SHAREHOLDERS NAME	NO. OF SHARES HELD	%
1	National Social Security Fund (NSSF)	269,361,386	7.38%
2	George Willy Baguma	101,933,042	2.79%
3	Emmanuel Katongole	101,933,042	2.79%
4	Frederick Kitaka Mutebi	101,933,042	2.79%
5	Joseph Yiga	4,000,000	0.11%
6	UAP Insurance – General Life Fund	2,731,000	0.07%
7	UAP Insurance Uganda LTD	1,923,000	0.05%
8	Samson Kalema William	1,442,400	0.04%
9	Timothy Sabiiti Mutebile	1,019,600	0.03%
10	Patrick Mutimba	1,005,000	0.03%

TOP 10 INTERNATIONAL SHAREHOLDERS AS AT 31 MARCH 2024.

	SHAREHOLDER'S NAME	NO. OF SHARES HELD	%
1	Africa Capitalworks SSA 3.	1,869,170,684	51.183%
2	Amistad Limited	420,402,713	11.512%
3	Capitalworks SSA 1	407,152,191	11.149%
4	Government Employees Pension Fund	312,000,000	8.543%
5	Jain Rajnish	779,726	0.021%
6	Nirav Jashvantkumar Patel	738,400	0.020%
7	Namrata Nirav Patel	306,000	0.008%
8	Kassam Ebrahim	200,000	0.005%
9	Rajeshkumar Arvindbhai Patel	200,000	0.005%
10	Kalpesh Dahyabhai Patel	199,855	0.005%

LIST OF ACRONYMS AND TECHNICAL DEFINITIONS

ACRONYMS

AGM	Annual General Meeting
APIS	Active Pharmaceutical Ingredients
CAPA	Corrective and Preventative Action
CEO	Chief Executive Officer
COVID-19	Coronavirus disease
COSO	Community of Sponsoring Organisations of the Treadway Commission
CSR	Corporate Social Responsibility
CGMP	Current Good Manufacturing Practices
EPS	Earnings Per Share
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortisation
EHG	Environment, Health and Safety
ESG	Environmental, Social, and Governance
ETP	Effluent Treatment Plant
FTE	Full-time equivalent
FY	Financial Year
GLP	Good Laboratory Practices
GMP	Good Management Practices
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting <IR> Council
ISO	International Organisation for Standardisation
KPI	Key Performance Indicators
LTI	Last Time Incident
MAS	Marketing Authorisations
NDP/A	National Drug Policy or Authority
NEMA	National Environment and Management Authority
PPM	Planned Preventative Maintenance
PwC	Pricewaterhouse Coopers
RA	Regulatory Affairs
SAP	Systems, Applications and Products in Data Processing
SDGS	Sustainable Development Goals
SOPS	Standard Operating Procedures
TIR	Total Injury Rate
WHO	World Health Organization
WHP	World Health Organization's Pre-qualification of Medicines Programme
QMS	Quality Management System

DEFINITIONS

COMPOUND ANNUAL GROWTH RATE CAGR	The average year-on-year growth rate of an investment over several years.
CORE CAPITAL	Permanent shareholder's equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets.
CREDIT IMPAIRMENT CHARGE (USHS)	The amount by which the period profits are reduced to cater for the effect of credit impairment.
COST-TO-INCOME RATIO (%)	Total operating expenses as a percentage of total income before deducting the provision for credit losses.
CREDIT LOSS RATIO (%)	Provision for credit losses per the Statement of Comprehensive Income as a percentage of gross loans and advances.
DIVIDEND COVER (TIMES)	Earnings per share divided by total dividends per share.
DIVIDEND PER SHARE (USHS)	Total ordinary dividends declared per share with respect to the year.
DIVIDENDS YIELD (%)	Dividends per share as a percentage of the closing share price.
EARNINGS PER SHARE (SHS) – EPS	Earnings attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue stated in Uganda Shillings.
EFFECTIVE TAX RATE (%)	The income tax charge as a percentage of income before tax, excluding income from associates.
EFFLUENT TREATMENT PLANT	Also known as ETP is a waste water treatment process (WWTP) that is used to treat waste water. It is mostly used where extreme water contamination is a possibility. Effluent Treatment Plant plays a significant role in the treatment of industrial waste water as well as domestic sewage. Organic matter, inorganic matter, heavy metals, oil and grease, suspended particles, and other contaminants are treated in the wastewater treatment process of an ETP plant.
LENDING RATIO	Net loans and advances divided by total deposits.
NET INTEREST MARGIN (%)	Net interest income as a percentage of average total assets.
PERCENTAGE CHANGE IN CREDIT LOSS RATIO (%)	Ratio of change in the rate of credit loss impairment between time periods.
PERCENTAGE CHANGE IN THE IMPAIRMENT CHARGE (%)	Ratio of change in the rate of impairment charge between time periods.
PRICE EARNINGS RATIO (%)	Closing share price divided by earnings per share.
PROFIT FOR THE YEAR (SHS)	Annual Income statement profit attributable to ordinary shareholders stated in Uganda Shillings.
RETURN ON AVERAGE ASSETS (%) – ROA	Earnings as a percentage of average total assets.
RETURN ON AVERAGE EQUITY (%) – ROE	Earnings as a percentage of average ordinary shareholders' funds.
SOFP CREDIT IMPAIRMENT AS A % OF GROSS LOANS AND ADVANCES (%)	Ratio of the Statement of Financial Position credit impairment to gross loans and advances.
SUPPLEMENTARY CAPITAL	General provisions which are held against future and current unidentified losses that are freely available to meet losses which subsequently materialise, and revaluation reserves on banking premises, and any other form of capital as may be determined from time to time, by the Central Bank.
TOTAL CAPITAL	The sum of core capital and supplementary capital.
TOTAL CAPITAL ADEQUACY	Total capital divided by the sum of total risk weighted assets and total risk weighted contingent claims.

COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

Quality Chemical Industries Limited
Plot 1–7, 1st Ring Road
Luzira Industrial Park
P.O. Box 34871
Kampala, Uganda

BANKERS

Absa Bank Uganda Limited
Plot 2, Hannington Road
P.O. Box 7101
Kampala, Uganda

Standard Chartered Bank (U) Limited
Plot 5, Speke Road
P.O. Box 7111
Kampala, Uganda

SOLICITORS

K&K Advocates
SRK House
Plot 67, Lugogo Bypass
P.O. Box 606
Kampala, Uganda

MMAKS Advocates
3rd Floor, DTB Centre
Plot 17/19, Kampala Road
P.O. Box 7166
Kampala, Uganda

BROKER

Dyer and Blair Investment Bank
1 Lumumba Avenue
Ground Floor, Rwenzori House,
Kampala, Uganda

INDEPENDENT AUDITOR

Grant Thornton Certified Public Accountants
3rd Floor, Lugogo One
Plot 23, Lugogo Bypass
P.O. Box 7158
Kampala, Uganda