

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2023**

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2023**

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ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2023**

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**COMPANY INFORMATION**

**PRINCIPAL PLACE OF BUSINESS**

Cipla Quality Chemical Industries Limited  
Plot 1 - 7, 1st Ring Road  
Luzira Industrial Park;  
PO Box 34871  
Kampala, Uganda

**BANKERS**

Absa Bank Uganda Limited  
Plot 2, Hannington Road  
PO Box 7101  
Kampala, Uganda

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

**SOLICITORS**

K&K Advocates  
SRK House  
Plot 67, Lugogo Bypass  
PO Box 6061  
Kampala, Uganda

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

**SECRETARY**

Ms. Doreen Awanga  
Cipla Quality Chemical Industries Limited  
Plot 1-7 1st Ring Road  
Luzira Industrial Park  
PO Box 34871  
Kampala, Uganda

**INDEPENDENT AUDITOR**

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

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**DIRECTORS' REPORT**

The Directors submit their report together with the audited financial statements for the year ended March 31, 2023 which disclose the state of affairs of Cipla Quality Chemical Industries Limited ("the Company").

**A. INCORPORATION AND PRINCIPAL ACTIVITY**

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

The Company converted to a public company on October 7, 2016, and on September 17, 2018 the Company officially listed on the Uganda Securities Exchange, offering 18% of the shareholding to individual and institutional investors in an Initial Public Offering (IPO). During the IPO, Cipla (EU) reduced its shareholding from 11.25% to 0.13% and therefore, Cipla's interest in the Company reduced to 51.18%.

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).

On March 14, 2023, the Board of Directors was advised by Africa Capitalworks SSA 3 of its intention to acquire 51.18% of the issued ordinary shares of the Company. 51.05% of these shares were to be acquired from Meditab Holdings Limited while 0.13% were to be acquired from Cipla (EU) Limited.

Both sellers are wholly owned by Cipla Limited, ultimate holding Company.

Capitalworks SSA 3 has applied for approval of this transaction in line with the Capital Markets (Takeovers and Mergers) Regulations, 2012.

**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 have recommended the declaration of a dividend of UShs 2.5 per share for the year ended March 31, 2023 (2022: proposed final dividend of UShs 2.0 per share).

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**DIRECTORS' REPORT (continued)**

**D. DIRECTORS**

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

<b>Name (Nationality)</b>	<b>Designation</b>
Emmanuel Katongole (Ugandan)	Executive Director (Board Chairperson)
Ajay Kumar Pal (Indian)	Executive Director - CEO
George Baguma (Ugandan)	Executive Director
John Kamili (Ugandan)	Executive Director (Resigned on December 1, 2022)
Paul Miller (South African)	Non-Executive Director
Dr. Ranjana Pathak (American)	Non-Executive Director (Resigned on June 14, 2022)
Mark Warwick Daly (South African)	Non-Executive Director
Geena Malhotra (Indian)	Non-Executive Director
Stevens Mwanje (Ugandan)	Non-Executive Director
Zain Latif (British)	Alternate to George Baguma
Dr. Peter Mugenyi (Ugandan)	Independent Non-Executive Director
Joseph Baliddawa (Ugandan)	Independent Non-Executive Director

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 March 31, 2023, the following Directors held a direct interest in the Company's share capital as reflected in the table below:

<b>Directors</b>	<b>Number of shares</b>	<b>% Holdings</b>
Emmanuel Katongole	101,933,042	2.7912
George Baguma	101,933,042	2.7912
Stevens Mwanje	19,400	0.0005
	<u>203,885,484</u>	<u>5.5829</u>

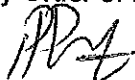
**F. INDEPENDENT AUDITOR**

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

**G. SUBSEQUENT EVENTS**

Except for the above mentioned matter, the Directors are not aware of any other matter or circumstance which is material to the financial affairs of the Company, which has occurred between March 31, 2023 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,



\_\_\_\_\_  
Doreen Awanga  
Company Secretary

May 19, 2023  
Kampala, Uganda

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED  
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**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 March 31, 2023, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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 twelve months from the date of this statement.

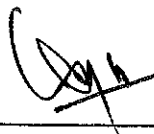
The financial statements on pages 11 to 55, which have been prepared on the going concern basis, were approved by the Board of Directors on May 19, 2023 and signed on its behalf by:



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**Emmanuel Katongole**  
Director

Date: May 19, 2023



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**Ajay Kumar Pal**  
Director

Date: May 19, 2023

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED**
**Report on the audit of the financial statements**
**Opinion**

We have audited the financial statements of Cipla Quality Chemical Industries Limited ("the Company") set out on pages 11 to 55, which comprise the statement of financial position as at March 31, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**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 these matters.

**Key audit matters**
**How the matter was addressed in our audit**
**Loss allowance on trade receivables**

The Company recognises a loss allowance for Expected Credit Loss ('ECL') on its financial assets measured at amortised cost mainly trade receivables stated at US\$ 60,561,966 thousand (gross) as at March 31, 2023 (2022: US\$ 100,335,106 thousand). The cumulative impairment allowance as at that date is US\$ 11,825,673 thousand (2022: US\$ 26,776,910 thousand) against this trade receivable. ECL model require significant management judgement and assumptions in deriving the impairment allowance and hence we have considered this audit area to be a key audit matter.

Our audit procedures included understanding and testing of the design and operating effectiveness of the key 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 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:

## INDEPENDENT AUDITOR'S REPORT

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### **Key audit matters**

The Company makes use of a simplified approach in accounting for financial assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

### **How the matter was addressed in our audit**

- for selected balances, we substantiated the recorded amounts by obtaining counterparty balance 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 data used in the ECL model;
- reviewed the judgments 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.

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### **Valuation of inventory and related provisions**

Inventories, stated at US\$ 66,335,779 thousand as at March 31, 2023 (2022: US\$ 80,391,616 thousand), represent the second largest category of assets on the statements of financial position of the Company.

There is a significant estimate involved in valuation of the inventories to its present condition and locations. This particularly relates to the assessment of direct costs and allocation of the

Our audit procedures included understanding and testing of the design, implementation and operating effectiveness of the key controls around;

- physical verification of inventories;
- valuation of inventories; and
- valuation of provision for the obsolete, expired or slow-moving inventories.

Our testing of the design 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.



## INDEPENDENT AUDITOR'S REPORT

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### **Key audit matters**

manufacturing and production overheads.

In addition, the valuation of the inventory is done at the lower of cost and net realisable value as per Company's accounting policy. Thus, management's assessment of percentage of write down for inventories is based on the historical experience and judgement.

### **How the matter was addressed in our audit**

Our substantive audit procedures included the following:

- reviewed periodic reconciliations of perpetual physical counts;
- assessed the appropriateness and reasonableness of the inventory provision;

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### **Revenue recognition**

The Company's revenue for the year ended March 31, 2023 was US\$ 221,466,376 thousand (2022: US\$ 267,432,354 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.

Our audit procedures included understanding and testing of the design, implementation, and operating effectiveness of the key controls around the revenue process.

We obtained and reviewed sales contracts with key customers to understand 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 note has 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.

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### **Other information**

The Directors are responsible for the other information on pages 2 to 5. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express 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.

## **INDEPENDENT AUDITOR'S REPORT**

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### **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.

### **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:

#### **Auditor's responsibilities for the audit of the financial statements (continued)**

- 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.

## INDEPENDENT AUDITOR'S REPORT

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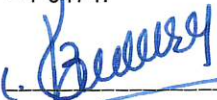
From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure 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 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 Uday Bhalara – P0474.

  
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**Uday Bhalara – P0474**  
**Partner**

  
**Grant Thornton**  
**Certified Public Accountants**

May 19, 2023  
Kampala, Uganda

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED  
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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	2023 UShs '000	2022 UShs '000
Revenue	3	221,466,376	267,432,354
Cost of sales	4	(154,457,788)	(196,723,381)
<b>Gross profit</b>		<b>67,008,588</b>	70,708,973
Other income	5	333,096	127,990
General and administrative expenses	6	(53,995,292)	(51,726,786)
Reversal of impairment allowance on trade receivable	17	15,661,237	20,207,101
<b>Operating profit</b>		<b>29,007,629</b>	39,317,278
Finance income	9	3,843,980	-
Finance costs	10	(1,068,230)	(1,543,062)
<b>Profit before tax</b>	11	<b>31,783,379</b>	37,774,216
Taxation	12	(12,796,661)	(13,723,615)
<b>Profit for the year</b>		<b>18,986,718</b>	24,050,601
Other comprehensive income		-	-
<b>Total comprehensive profit for the year</b>		<b>18,986,718</b>	24,050,601
<b>Basic and diluted earnings per share (UShs)</b>	19(d)	<b>5.20</b>	6.59

The notes on pages 15 to 55 are an integral part of these financial statements.

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED**  
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**STATEMENT OF FINANCIAL POSITION**

	Notes	2023 UShs '000	2022 UShs '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant, equipment and right-of-use assets	13	67,339,505	65,055,052
Capital work-in-progress	14	3,022,079	3,715,964
Intangible assets	15	901,412	1,332,567
Deferred tax asset	12(c)	-	5,139,094
		<u>71,262,996</u>	<u>75,242,677</u>
<b>Current assets</b>			
Inventories	16	66,335,779	80,391,616
Trade and other receivables	17	62,951,599	82,503,740
Income tax recoverable	12(d)	2,104,114	58,595
Cash and cash equivalents	18	10,812,571	8,486,203
		<u>142,204,063</u>	<u>171,440,154</u>
<b>TOTAL ASSETS</b>		<u>213,467,059</u>	<u>246,682,831</u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	19(a)	45,648,865	45,648,865
Capital grant	20	2,275,000	2,275,000
Proposed dividend	21	9,129,773	7,303,818
Retained earnings		114,358,827	104,501,882
		<u>171,412,465</u>	<u>159,729,565</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred tax liability	12(c)	1,074,232	-
Term loan	22	-	18,888,375
Lease liabilities	23	67,462	137,536
		<u>1,141,694</u>	<u>19,025,911</u>
<b>Current liabilities</b>			
Term loan	22	5,400,750	6,868,500
Lease liabilities	23	49,816	109,850
Trade and other payables	24	35,462,334	60,949,005
		<u>40,912,900</u>	<u>67,927,355</u>
<b>TOTAL LIABILITIES</b>		<u>42,054,594</u>	<u>86,953,266</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>213,467,059</u>	<u>246,682,831</u>

The financial statements on pages 11 to 55 were approved by the Board of Directors on  
May 19, 2023 and signed on its behalf by:



**Emmanuel Katongole**  
**Director**



**Ajay Kumar Pal**  
**Director**

The notes on pages 15 to 55 are an integral part of these financial statements.

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED  
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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Capital grant	Proposed dividend	Retained earnings	Total equity
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Balance as at April 1, 2021</b>	<b>45,648,865</b>	<b>2,275,000</b>	-	<b>87,755,099</b>	<b>135,678,964</b>
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	24,050,601	24,050,601
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>45,648,865</b>	<b>2,275,000</b>	-	<b>111,805,700</b>	<b>159,729,565</b>
<b>Transaction with owners of the Company</b>					
Proposed dividend	-	-	7,303,818	(7,303,818)	-
<b>Total distributions</b>	-	-	<b>7,303,818</b>	<b>(7,303,818)</b>	-
<b>Balance as at March 31, 2022</b>	<b>45,648,865</b>	<b>2,275,000</b>	<b>7,303,818</b>	<b>104,501,882</b>	<b>159,729,565</b>
<b>Balance as at April 1, 2022</b>	<b>45,648,865</b>	<b>2,275,000</b>	<b>7,303,818</b>	<b>104,501,882</b>	<b>159,729,565</b>
<b>Total comprehensive profit for the year</b>					
Profit for the year	-	-	-	18,986,718	18,986,718
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>45,648,865</b>	<b>2,275,000</b>	<b>7,303,818</b>	<b>123,488,600</b>	<b>178,716,283</b>
<b>Transaction with owners of the Company</b>					
Proposed dividend	-	-	9,129,773	(9,129,773)	-
Dividend paid	-	-	(7,303,818)	-	(7,303,818)
<b>Total distributions</b>	-	-	<b>1,825,955</b>	<b>(9,129,773)</b>	<b>(7,303,818)</b>
<b>Balance as at March 31, 2023</b>	<b>45,648,865</b>	<b>2,275,000</b>	<b>9,129,773</b>	<b>114,358,827</b>	<b>171,412,465</b>

The notes on pages 15 to 55 are an integral part of these financial statements.

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
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<b>STATEMENT OF CASH FLOWS</b>	<b>Notes</b>	<b>2023</b> <b>UShs '000</b>	<b>2022</b> <b>UShs '000</b>
<b>Cash flows from operating activities</b>			
Profit before tax		<b>31,783,379</b>	37,774,216
Adjustment for:			
- Impairment allowance on financial assets		<b>(15,661,237)</b>	(20,207,101)
- Depreciation	13	<b>9,268,639</b>	8,621,402
- Amortisation	15	<b>474,448</b>	449,770
- Movement in provision for obsolete stock		<b>(1,209,486)</b>	2,856,625
- Gain on sale of property, plant and equipment	5	<b>(265,812)</b>	(33,898)
- Finance costs		<b>1,068,230</b>	1,399,016
		<b>25,458,161</b>	30,860,030
Changes in:			
- Inventories		<b>15,265,323</b>	(14,440,157)
- Trade and other receivables		<b>34,503,378</b>	2,900,454
- Trade and other payables		<b>(23,690,439)</b>	4,280,112
<b>Cash generated from operating activities</b>		<b>51,536,423</b>	23,600,439
Interest paid on bank overdraft		<b>(293,227)</b>	(296,257)
Interest paid on term loan	22	<b>(744,359)</b>	(1,058,854)
Payment of interest on lease liabilities	23(c)	<b>(30,644)</b>	(43,905)
Tax paid		<b>(8,628,854)</b>	(6,301,922)
<b>Net cash generated from operating activities</b>		<b>41,839,339</b>	15,899,501
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>303,434</b>	33,898
Purchase of property, plant and equipment	13	<b>(7,884,021)</b>	(3,850,490)
Additions to capital work-in-progress	14	<b>(3,012,808)</b>	(3,652,294)
Purchase of intangible assets	15	<b>(43,293)</b>	(555,967)
<b>Net cash used in investing activities</b>		<b>(10,636,688)</b>	(8,024,853)
<b>Cash flows from financing activities</b>			
Dividends paid	21	<b>(7,303,818)</b>	-
Repayment of term loan	22	<b>(21,424,375)</b>	(6,811,500)
Repayment of lease liability	23(b)	<b>(148,090)</b>	(213,478)
<b>Net cash used in financing activities</b>		<b>(28,876,283)</b>	(7,024,978)
Net change in cash and cash equivalents		<b>2,326,368</b>	849,670
Cash and cash equivalents at start of year		<b>8,486,203</b>	7,636,533
<b>Cash and cash equivalent at end of year</b>	18	<b>10,812,571</b>	8,486,203

The notes on pages 15 to 55 are an integral part of these financial statements.

**CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED  
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**NOTES TO THE FINANCIAL STATEMENTS**

**1. Company information**

Cipla Quality Chemical Industries Limited ("the Company") was incorporated on June 10, 2005 as a joint venture between Quality Chemicals Limited (QCL) an entity incorporated in Uganda and Cipla Limited, an entity incorporated in India ("Cipla") through its wholly owned subsidiary, Meditab Holdings Limited, an entity incorporated in Mauritius ("Meditab") for the manufacture and sale of pharmaceutical drugs with emphasis on ARVs and ACTs.

On November 11, 2013 Cipla increased its effective stake (through Meditab) in the Company from 36.55% to 51.05% by acquiring an additional 14.5% of the Company from QCL. This restructuring made the Company a subsidiary of Meditab which in turn is an indirectly held, wholly owned subsidiary of Cipla Limited. The Company's name was subsequently changed from Quality Chemical Industries Limited to Cipla Quality Chemical Industries Limited effective March 24, 2014.

On August 6, 2015, Cipla acquired an additional 11.25% stake in the Company through its wholly owned subsidiary, Cipla (EU). The effective interest of Cipla in the Company as at March 31, 2018 was 62.3%. The Company converted to a public company on October 7, 2016.

On September 16, 2018, the Company listed 657,179,319 of its shares on the Uganda Securities Exchange (USE) for individual and institutional shareholders. New shareholders held 17.78% of the Company's shareholding as at March 31, 2020. During the IPO, Cipla EU sold off 405,804,411 of its shares, effectively reducing Cipla's interest in the Company to 51%. Capital Works sold off 118,722,734 shares and other shareholders sold off 124,857,341 shares.

**2. Significant 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 ('IFRSs') and presented in Uganda Shillings ('UShs') which is the Company's functional currency.

All financial amounts presented in Uganda Shillings 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.

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 International Financial Reporting Standards ('IFRSs') and in compliance with the requirements of the Companies Act, 2012.

These accounting policies have been applied consistently throughout the current period and in all periods presented.



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**c) New standards, interpretations and amendments to standards**

The Company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the accounting periods beginning on or after 1 January 2023 or later periods:

<b>Standard/amendment</b>	<b>Effective date - Year beginning on or after</b>	<b>Key requirements</b>	<b>Impact</b>
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	January 1, 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.	Unlikely there will be a material impact.
Definition of Accounting Estimates (Amendments to IAS 8)	January 1, 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.	Unlikely there will be a material impact.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	January 1, 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.	Unlikely there will be a material impact.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

<b>Standard/amendment</b>	<b>Effective date - Year beginning on or after</b>	<b>Key requirements</b>	<b>Impact</b>
IFRS 17 Insurance contracts	January 1, 2023	The standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.	Unlikely there will be a material impact.
Lease Liability in a Sale Leaseback (Amendments to IFRS 16)	January 1, 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 a 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.	Unlikely there will be a material impact.
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 1, 2024	The amendments elaborate on guidance set out in IAS 1 by: a. 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; b. stating that management's expectations around whether they will defer settlement or not does not impact the classification of the liability.	Unlikely there will be a material impact.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

<b>Standard/amendment</b>	<b>Effective date - Year beginning on or after</b>	<b>Key requirements</b>	<b>Impact</b>
		<p>c. adding guidance about lending conditions and how these can impact classification</p> <p>d. including requirements for liabilities that can be settled using an entity's own instruments.</p>	
Non-current Liabilities with Covenants (Amendments to IAS 1)	January 1, 2024	<p>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.</p> <p>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.</p>	Unlikely there will be a material impact.

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

The preparation of the financial statements requires management to make judgments, 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 within the next financial year are:

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**d) Use of significant judgement and key sources of estimation uncertainty (continued)**

**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 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 realizable value for such product. Accordingly, provision for obsolescence is made where the net realizable 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 income tax assets**

Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies. The Company considers (i) timing differences that are expected to reverse during the tax holiday period and are not recognised because they are offset against the government grant; and (ii) timing differences which reverse after the tax holiday period, and should be recognized in the financial statements.

**Income taxes**

Judgement 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. Sometimes 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.

**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 ECL is a significant estimate.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**d) Significant accounting judgements and estimates (continued)**

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgments, 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 expected credit losses (ECL) scenarios and the relevant inputs used. The Company has made a number of assumptions in calculating expected credit losses for its various financial assets; the Company has elected to apply a 12-month credit loss to derive expected credit losses 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)

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**e) Financial instruments (continued)**

**Measurement categories of financial assets and liabilities**

The Company classifies and measures 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 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 and 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.

Level 2 financial instruments (continued) - 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 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-collateralized 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**e) Financial instruments (continued)**

**Receivables and financial investments**

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

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- 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.

The details of these conditions are outlined below:

**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:

- 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.
- 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)
- 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.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**e) Financial instruments (continued)**

**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 recipients; 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.

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.



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**e) Financial instruments (continued)**

**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 more forward-looking information to recognise expected credit losses – the expected credit loss (ECL) model. 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 expected credit losses, 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 expected credit losses. 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 expected credit losses 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.

**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 fair value through profit or loss. 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 and effective as 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

**Recognition and measurement**

Items of property 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, cost of dismantling and removing the items and restoring the site on which they are located and capitalized 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 capitalized 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

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/life in use are:

Buildings	Lower of 4% and lease period of land the building stands
Motor vehicles	4 years
Tools and equipment	4 years
Computers	3 years
Furniture and fittings	4 years
Plant and machinery	10 years
Right-of-use assets	3-5 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**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 to six years; and
- Patents, which are amortised over a period of 10 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 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 (the "cash-generating unit, or 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 recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized 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 recognized 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 recognized.

**h) Inventories**

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**i) Inventories (continued)**

- 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 for its employees to the National Social Security Fund (NSSF). Provisions for annual leave and 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 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 categorized as an expense accrual.

**Defined contribution plan**

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 for the year they relate.

The Company and all its' employees contribute to the National Social Security Fund, 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 employees the 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 to which they fall due.

**j) 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 taxation 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**k) Tax (continued)**

**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 recognized for all taxable temporary differences. Deferred income tax assets are recognized 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 utilized except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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 recognized 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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**m) Government grants**

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.

**n) Revenue from contracts with customers**

Revenue arises mainly from the sale of antiretroviral (ARVs), antimalarial (ACT) and other pharmaceutical combinations. To determine whether to recognise revenue, the Company follows a 5-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, 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.

**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 by the customer.

When such items are either customized or sold together with 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 passage of title to the customer, which generally coincides with their delivery and acceptance. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**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 the corporate laws in Uganda, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. The approved dividend is recognised as liability until paid. Interim dividend is charged to equity when 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, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized 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 recognized 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 categorization (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 summarized 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 Cost model
- Financial instruments (including those carried at amortized cost)
- Contingent consideration

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

**q) Leases (continued)**

- 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 assess 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 balance sheet. 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 fixed), 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 of the Company to pay. Proposed dividends are disclosed in the notes.



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. Revenue**

	<b>2023</b> <b>UShs '000</b>	2022 UShs '000
Local sales	<b>171,873,381</b>	187,490,106
Exports	<b>49,592,995</b>	79,942,248
	<b><u>221,466,376</u></b>	<u>267,432,354</u>

Revenues mainly relate to sale of ARVs and ACTs therapies as shown in the table below:

	<b>2023</b> <b>UShs '000</b>	2022 UShs '000
ARVs	<b>160,450,821</b>	201,234,766
ACTs	<b>56,617,591</b>	57,152,888
Others	<b>4,397,964</b>	9,044,700
	<b><u>221,466,376</u></b>	<u>267,432,354</u>

**4. Cost of sales**

Material consumed	<b>121,363,523</b>	160,156,601
Other production overheads	<b>10,816,199</b>	11,231,544
Staff expenses (note 7)	<b>8,519,190</b>	8,866,599
Depreciation (note 8)	<b>8,031,980</b>	7,481,503
Technical service	<b>6,255,191</b>	6,104,198
Stock write-off	<b>681,191</b>	26,311
Movement in provision for obsolete stock	<b>(1,209,486)</b>	2,856,625
	<b><u>154,457,788</u></b>	<u>196,723,381</u>

**5. Other income**

Sale of scrap	<b>67,285</b>	94,092
Gain on disposal of property, plant and equipment	<b>265,811</b>	33,898
	<b><u>333,096</u></b>	<u>127,990</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. General and administrative expenses**

	<b>2023</b>	2022
	<b>UShs '000</b>	UShs '000
Staff expenses (note 7)	<b>25,371,248</b>	22,623,387
Advertising and promotions	<b>11,187,915</b>	10,651,594
Other administration expenses	<b>11,499,693</b>	12,254,383
Office expenses	<b>3,093,106</b>	3,569,213
Depreciation (note 8)	<b>1,236,659</b>	1,139,899
Amortisation (note 15)	<b>474,448</b>	449,770
Bank charges	<b>272,691</b>	368,356
Professional fees	<b>739,918</b>	561,735
Auditor's remuneration	<b>119,614</b>	108,449
	<b><u>53,995,292</u></b>	<u>51,726,786</u>

**7. Staff expenses**

Salaries and wages	<b>20,693,887</b>	19,171,827
Medical	<b>2,046,377</b>	2,140,334
NSSF contribution	<b>2,128,225</b>	2,013,728
Staff welfare	<b>1,285,448</b>	1,473,324
Catering	<b>1,633,668</b>	1,391,986
Provision of staff bonus - net	<b>1,731,267</b>	1,547,983
Provident fund	<b>3,858,236</b>	3,667,883
Leave provision charge/(release)	<b>157,703</b>	(102,171)
Training costs	<b>339,356</b>	86,586
Staff recruitment costs	<b>16,271</b>	98,506
	<b><u>33,890,438</u></b>	<u>31,489,986</u>

Staff costs are allocated as follows:

Cost of sales (note 4)	<b>8,519,190</b>	8,866,599
General and administrative expenses (note 6)	<b>25,371,248</b>	22,623,387
	<b><u>33,890,438</u></b>	<u>31,489,986</u>

**8. Depreciation expense**

Depreciation allocated as follows:

Cost of sales (note 4)	<b>8,031,980</b>	7,481,503
General and administrative expenses (note 6)	<b>1,236,659</b>	1,139,899
	<b><u>9,268,639</u></b>	<u>8,621,402</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**9. Finance income**

	2023 UShs '000	2022 UShs '000
Interest received on bank deposits	625,317	-
Net foreign exchange gain	3,218,663	-
	<u>3,843,980</u>	<u>-</u>

**10. Finance costs**

Interest on term loans	744,359	1,058,854
Interest on bank overdraft	293,227	296,257
Net foreign exchange loss	-	144,046
Interest on finance lease liabilities	30,644	43,905
	<u>1,068,230</u>	<u>1,543,062</u>

**11. Profit before tax**

Profit before tax is stated after charging:

Depreciation	9,268,639	8,621,402
Net foreign exchange (gains)/losses	(3,218,663)	144,046
Amortisation	474,448	449,770
Directors' remuneration	6,520,313	5,498,251
Auditor's remuneration	119,614	108,449
Gain on disposal of property, plant and equipment	265,811	33,898

**12. Taxation**

**a. Amounts recognised in the statement of profit or loss**

Current income tax charge	6,583,335	7,681,868
Deferred tax charge	6,213,326	6,041,747
	<u>12,796,661</u>	<u>13,723,615</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12. Taxation (continued)**

**b. Reconciliation of tax expense to tax as per accounting profit**

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:

	<b>2023</b>	2022
	<b>UShs '000</b>	UShs '000
Profit before tax	<b>31,783,379</b>	37,774,216
Tax calculated at the statutory income tax rate of 30%	<b>9,535,014</b>	11,332,265
<i>Tax effect of:</i>		
Expenses not deductible for tax purposes	<b>3,261,647</b>	2,391,350
	<b><u>12,796,661</u></b>	<u>13,723,615</u>

**c. Deferred tax (liability)/asset**

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:

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
At the start of the year	<b>5,139,094</b>	11,180,841
Charged to statement of profit or loss	<b>(6,213,326)</b>	(6,041,747)
	<b><u>(1,074,232)</u></b>	<u>5,139,094</u>

**d. Income tax recoverable**

Income tax receivable	<b><u>2,104,114</u></b>	<u>58,595</u>
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As at March 31, 2023, UShs 2,104 million (2022: UShs 59 million) 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 the year. The amount will be offset against future income tax obligations.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**13. Property, plant, equipment, and right-of-use assets**

	<b>Right-of-use asset</b>	<b>Buildings</b>	<b>Plant &amp; machinery</b>	<b>Furniture &amp; fittings</b>	<b>Motor vehicles</b>	<b>Computers</b>	<b>Tools &amp; equipment</b>	<b>Total</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>COST</b>								
Balance as at April 1, 2021	3,585,171	33,219,076	73,308,868	1,718,274	2,747,925	3,494,048	5,791,392	123,864,754
Additions	-	386,105	2,326,164	36,587	812,206	137,718	151,710	3,850,490
Transfer from CWIP (Note 14)	-	-	6,938,601	-	-	-	192,111	7,130,712
On disposals	-	-	-	-	(244,186)	-	-	(244,186)
Balance as at March 31, 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
Balance as at April 1, 2022	<b>3,585,171</b>	<b>33,605,181</b>	<b>82,573,633</b>	<b>1,754,861</b>	<b>3,315,945</b>	<b>3,631,766</b>	<b>6,135,213</b>	<b>134,601,770</b>
Additions	-	-	4,642,212	41,718	1,989,387	667,572	543,132	7,884,021
Transfer from CWIP (Note 14)	-	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 as at March 31, 2023	<b>3,585,171</b>	<b>33,824,436</b>	<b>89,146,638</b>	<b>1,796,579</b>	<b>3,499,645</b>	<b>4,307,975</b>	<b>7,622,880</b>	<b>143,783,324</b>
<b>ACCUMULATED DEPRECIATION</b>								
Balance as at 1 April 1, 2021	342,628	9,451,583	42,789,181	1,195,177	2,243,192	2,484,710	2,663,031	61,169,502
Depreciation charge for the year	207,453	1,328,968	5,059,740	190,677	225,637	509,584	1,099,343	8,621,402
On disposals	-	-	-	-	(244,186)	-	-	(244,186)
Balance as at March 31, 2022	550,081	10,780,551	47,848,921	1,385,854	2,224,643	2,994,294	3,762,374	69,546,718
Balance as at April 1, 2022	<b>550,081</b>	<b>10,780,551</b>	<b>47,848,921</b>	<b>1,385,854</b>	<b>2,224,643</b>	<b>2,994,294</b>	<b>3,762,374</b>	<b>69,546,718</b>
Depreciation charge for the year	<b>173,478</b>	<b>1,351,319</b>	<b>5,330,876</b>	<b>161,534</b>	<b>460,115</b>	<b>435,367</b>	<b>1,355,950</b>	<b>9,268,639</b>
On disposals	-	-	(562,850)	-	(1,805,687)	(3,001)	-	(2,371,538)
Balance as at March 31, 2023	<b>723,559</b>	<b>12,131,870</b>	<b>52,616,947</b>	<b>1,547,388</b>	<b>879,071</b>	<b>3,426,660</b>	<b>5,118,324</b>	<b>76,443,819</b>
<b>NET CARRYING VALUE</b>								
Balance as at March 31, 2023	<b>2,861,612</b>	<b>21,692,566</b>	<b>36,529,691</b>	<b>249,191</b>	<b>2,620,574</b>	<b>881,315</b>	<b>2,504,556</b>	<b>67,339,505</b>
Balance as at March 31, 2022	3,035,090	22,824,630	34,724,712	369,007	1,091,302	637,472	2,372,839	65,055,052

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**14 Capital work-in-progress**

	<b>Buildings UShs '000</b>	<b>Plant &amp; machinery UShs '000</b>	<b>Furniture and fittings UShs '000</b>	<b>Computers UShs '000</b>	<b>Tools &amp; equipment UShs '000</b>	<b>Total UShs '000</b>
Balance as at April 1, 2021	-	7,169,912	-	409	24,061	7,194,382
Additions	229,054	2,379,232	-	10,824	1,033,184	3,652,294
Transfer to property, plant and equipment	-	(6,938,601)	-	-	(192,111)	(7,130,712)
Balance as at March 31, 2022	229,054	2,610,543	-	11,233	865,134	3,715,964
Balance as at April 1, 2022	<b>229,054</b>	<b>2,610,543</b>	-	<b>11,233</b>	<b>865,134</b>	<b>3,715,964</b>
Additions	<b>540,726</b>	<b>2,289,702</b>	<b>3,963</b>	<b>1,170</b>	<b>177,247</b>	<b>3,012,808</b>
Transfer to property, plant and equipment	<b>(219,255)</b>	<b>(2,531,265)</b>	-	<b>(11,638)</b>	<b>(944,535)</b>	<b>(3,706,693)</b>
Balance as at March 31, 2023	<b>550,525</b>	<b>2,368,980</b>	<b>3,963</b>	<b>765</b>	<b>97,846</b>	<b>3,022,079</b>

The capital work-in-progress (CWIP) mainly represents the cost of the machinery under installation and progressing construction work at the Luzira factory.

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**15. Intangible assets**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
<b>COST</b>		
At start of year	<b>3,793,963</b>	3,237,996
Additions	<b>43,293</b>	555,967
<b>At end of year</b>	<b><u>3,837,256</u></b>	<u>3,793,963</u>
<b>ACCUMULATED AMORTISATION</b>		
At start of year	<b>2,461,396</b>	2,011,626
Amortisation for the year	<b>474,448</b>	449,770
<b>At end of year</b>	<b><u>2,935,844</u></b>	<u>2,461,396</u>
<b>NET CARRYING VALUE</b>	<b><u>901,412</u></b>	<u>1,332,567</u>

Intangible asset mainly relates to SAP software currently used by the Company for its financial accounting.

**16. Inventories**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Raw materials	<b>19,147,916</b>	41,853,760
Finished goods	<b>20,339,370</b>	8,434,786
Work-in-progress	<b>14,788,111</b>	11,679,659
Packing materials	<b>8,019,137</b>	8,733,872
Stocks in transit	<b>8,549,869</b>	14,727,170
Spares and consumables	<b>1,035,093</b>	1,715,572
	<b>71,879,496</b>	87,144,819
Less: provision for obsolete inventories	<b>(5,543,717)</b>	(6,753,203)
	<b><u>66,335,779</u></b>	<u>80,391,616</u>

In 2023, a net reversal of provision for obsolete inventories of UShs 1,209 million (2022: charge of UShs 2,883 million) was recognized in the statement of profit or loss and included in cost of sales.

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**17. Trade and other receivables**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
<b>Financial instruments</b>		
Trade receivables	<b>60,561,966</b>	100,335,106
Less: expected credit losses	<b>(11,825,673)</b>	(26,776,910)
	<b>48,736,293</b>	73,558,196
Other receivables	<b>1,717</b>	534,537
<b>Non-financial instruments</b>		
Advance payments to suppliers	<b>7,798,727</b>	3,033,747
VAT recoverable	<b>4,859,212</b>	4,954,153
Prepayments	<b>1,509,021</b>	412,151
Staff advances	<b>46,629</b>	10,956
	<b>62,951,599</b>	82,503,740
<b>Movement in expected credit losses</b>		
Opening balance	<b>26,776,910</b>	46,984,011
Reversal of impairment allowance	<b>(15,661,237)</b>	(20,207,101)
Closing balance	<b>11,825,673</b>	26,776,910

Included in the reversal of the impairment allowance was an amount of UShs 14.7 billion (2022: UShs 19.2 billion) that was recorded on collection UShs 14.7 billion (2022: UShs 19.2 billion) from the Government of Zambia during the year. This receivable had been fully impaired in the earlier years.

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

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
<b>Grading of receivables</b>		
High grade (0–90 days)	<b>47,168,860</b>	73,433,342
Standard grade (91–365 days)	<b>1,500,332</b>	132,177
Impaired over 365 days	<b>3,328,761</b>	3,557,961
Individually impaired and over 365 days	<b>8,564,013</b>	23,211,626
<b>Total</b>	<b>60,561,966</b>	100,335,106



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

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

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
<b>Movement in gross trade receivables</b>		
Opening balance	<b>100,335,106</b>	100,998,956
Sales during the year	<b>221,466,376</b>	267,432,354
Write-off during the year	-	(222,137)
Receipts	<b>(261,239,516)</b>	(267,874,067)
<b>Closing balance</b>	<b>60,561,966</b>	100,335,106

**Expected credit loss assessment for customers**

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

	<b>Weighted average loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Credit impaired</b>
<b>As at March 31, 2023</b>				
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 past due	97.46%	11,910,135	11,607,198	Yes
		<b>60,561,966</b>	<b>11,825,673</b>	
<b>As at March 31, 2022</b>				
Current (not past due)	0.45%	63,367,147	285,565	No
1-30 days past due	22.25%	423,500	94,208	No
31-60 days past due	0.65%	9,328,599	60,395	No
61-90 days past due	58.74%	15,082	8,860	No
90 -180 days past due	61.88%	94,789	58,658	Yes
180 -365 days past due	45.68%	37,388	17,080	Yes
More than 365 past due	96.98%	27,068,601	26,252,144	Yes
		<b>100,335,106</b>	<b>26,776,910</b>	

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**18. Cash and cash equivalent**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Cash in hand	<b>1,648</b>	38
Cash at bank	<b>10,810,923</b>	8,486,165
	<b>10,812,571</b>	8,486,203

The cash and bank balances are held at Absa Bank Uganda Limited and Standard Chartered Bank (U) Limited and, to the extent that the Directors are able to measure any credit risk to these assets, it is deemed to be limited. Accordingly, the Company has not recognised an impairment allowance on bank balances as at March 31, 2023 (2022: Nil).

The overdraft facilities were obtained from Absa Bank Uganda Limited (Absa) and Standard Chartered Bank (U) Limited (Standard Chartered) for cash management purposes. Both facilities have a limit of USD 10 million (2022: USD 10 million). The Absa overdraft interest rate is 4 % p.a above 3 months SOFR while the Standard Chartered interest rate is 3.5% p.a. above 3 months SOFR.

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

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
US dollar	<b>4,466,185</b>	7,285,348
Uganda Shilling	<b>6,344,738</b>	1,200,817
	<b>10,810,923</b>	8,486,165

**19. Share capital**

**a. Ordinary shares - authorised, issued and fully paid-up**

Number of shares	<b>3,651,909,200</b>	3,651,909,200
Nominal value per share (UShs)	<b>12.5</b>	12.5
Authorised, issued and fully paid-up capital (UShs '000)	<b>45,648,865</b>	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 UShs 5,000 to UShs 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.

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**19. Share capital (continued)**

**b. Shareholding**

The top ten shareholders in the Company are shown in the table below:

	2023		2022	
	Shares	Percentage	Shares	Percentage
Meditab Holdings Limited	1,864,299,646	51.05%	1,864,299,646	51.05%
AMISTAD	420,402,713	11.51%	420,402,713	11.51%
Capital Works SSA1	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%
Baguma George William	101,933,042	2.79%	101,933,042	2.79%
Cipla EU Limited	4,871,038	0.13%	4,871,038	0.13%
Yiga Joseph	4,000,000	0.11%	4,000,000	0.11%
Others	64,023,100	1.76%	64,023,100	1.76%
	<b>3,651,909,200</b>	<b>100%</b>	<b>3,651,909,200</b>	<b>100%</b>

**c. Spread of shares**

	No. of investors	No. of shares held	Percentage holding
<b>Holding as at March 31, 2023</b>			
Between 0 and 1,000 Shares	457	398,126	0.01%
Between 1,001 and 5,000 Shares	960	2,673,679	0.08%
Between 5,001 and 10,000 Shares	402	3,424,200	0.10%
Between 10,001 and 1,000,000 Shares	747	49,406,095	1.36%
Above 1,000,001 Shares	15	3,596,198,200	98.47%
	<b>2,581</b>	<b>3,651,909,200</b>	<b>100.00%</b>
<b>Holding as at March 31, 2022</b>			
Between 0 and 1,000 Shares	450	394,575	0.01%
Between 1,001 and 5,000 Shares	965	2,686,262	0.07%
Between 5,001 and 10,000 Shares	403	3,441,429	0.09%
Between 10,001 and 1,000,000 Shares	752	49,188,734	1.35%
Above 1,000,001 Shares	15	3,596,198,200	98.48%
	<b>2,585</b>	<b>3,651,909,200</b>	<b>100.00%</b>

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**19. Share capital (continued)**

**d. Basic and diluted earnings per share**

	2023	2022
Profit attributable to ordinary equity holders of the Company (UShs '000)	<b>18,986,718</b>	24,050,601
Weighted average number of ordinary shares in issue during the year	<b>3,651,909,200</b>	3,651,909,200
Basic and diluted earnings per share (UShs '000)	<u><b>5.20</b></u>	<u>6.59</u>

Diluted earnings per share amounts are 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.

**20. Capital grant**

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 UShs 2.275 billion.

The cost of the lease was waived by 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 have it appropriated into a separate reserve under equity.

**21. Dividends**

The Board of Directors have recommended the declaration of a dividend of UShs 2.5 per share for the year ended March 31, 2023 (2022: Final dividend of UShs 2.0 per share).

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**22. Term loan**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Current portion	<b>5,400,750</b>	6,868,500
Non-current portion	-	18,888,375
	<b><u>5,400,750</u></b>	<u>25,756,875</u>

The Company obtained a term loan from Standard Chartered Bank (U) Limited of \$ 9,500,000 at weighted average interest rate of 5.87% in November 2020 to refinance the capital expenditure originally financed using short term funds. The loan is unsecured and is repayable by September 2025 and no penalties are applicable on early repayments of the loan.

The movement in bank borrowings is as follows:

	<b>Term loan</b>	<b>Bank overdraft</b>	<b>Total</b>
	<b>UShs '000</b>	<b>UShs '000</b>	<b>UShs '000</b>
<b>Year ended March 31, 2023</b>			
At start of year	<b>25,756,875</b>	-	<b>25,756,875</b>
Interest charged to profit or loss	<b>744,359</b>	<b>293,227</b>	<b>1,037,586</b>
Foreign exchange loss	<b>1,068,250</b>	-	<b>1,068,250</b>
Cash flows:			
Interest paid	<b>(744,359)</b>	<b>(293,227)</b>	<b>(1,037,586)</b>
Repayment of bank borrowings	<b>(21,424,375)</b>	-	<b>(21,424,375)</b>
<b>At end of year</b>	<b><u>5,400,750</u></b>	<u>-</u>	<b><u>5,400,750</u></b>
<b>Year ended March 31, 2022</b>			
At start of year	33,212,000	(354,164)	32,857,836
Interest charged to profit or loss	1,058,854	296,257	1,355,111
Foreign exchange loss	(643,625)	-	(643,625)
Cash flows:			
Interest paid	(1,058,854)	(296,257)	(1,355,111)
Repayment of bank borrowings	(6,811,500)	354,164	(6,457,336)
At end of year	<u>25,756,875</u>	<u>-</u>	<u>25,756,875</u>

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**22. Term loan (continued)**

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

	<b>2023</b>	2022
	<b>US\$'000</b>	US\$'000
6 months or less	<b>3,600,500</b>	3,434,250
6 - 12 months	<b>1,800,250</b>	3,434,250
1 - 5 years	-	18,888,375
	<b><u>5,400,750</u></b>	<u>25,756,875</u>

**23. Right-of-use assets and lease liabilities**

	<b>Leasehold land</b>	<b>Leased motor vehicles</b>	<b>Leased warehouse</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
<b>a) Right-of-use assets</b>				
<b>As at March 31, 2022</b>				
At start of year	2,776,233	370,308	96,002	3,242,543
Depreciation	-	(111,451)	(96,002)	(207,453)
<b>At end of year</b>	<b>2,776,233</b>	<b>258,857</b>	<b>-</b>	<b>3,035,090</b>
<b>As at March 31, 2023</b>				
At start of year	<b>2,776,233</b>	<b>258,857</b>	<b>-</b>	<b>3,035,090</b>
Depreciation	-	(173,478)	-	(173,478)
<b>At end of year</b>	<b>2,776,233</b>	<b>85,379</b>	<b>-</b>	<b>2,861,612</b>
<b>b) Lease liabilities</b>				
<b>As at March 31, 2023</b>				
Current	-	<b>49,816</b>	-	<b>49,816</b>
Non-current	-	<b>67,462</b>	-	<b>67,462</b>
<b>At end of year</b>	<b>-</b>	<b>117,278</b>	<b>-</b>	<b>117,278</b>
Cash outflow for leases in year was:				
Payment for principal portion of lease liability	-	<b>148,090</b>	-	<b>148,090</b>
Payment of interest on lease liabilities	-	<b>30,644</b>	-	<b>30,644</b>
	<b>-</b>	<b>178,734</b>	<b>-</b>	<b>178,734</b>
<b>As at March 31, 2022</b>				
Current	-	109,850	-	109,850
Non-current	-	137,536	-	137,536
<b>At end of year</b>	<b>-</b>	<b>247,386</b>	<b>-</b>	<b>247,386</b>
Cash outflow for leases in year was:				
Payment for principal portion of lease liability	-	107,704	105,774	213,478
Payment of interest on lease liabilities	-	26,115	17,790	43,905
	<b>-</b>	<b>133,819</b>	<b>123,564</b>	<b>257,383</b>

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**23. Right-of-use assets and lease liabilities (continued)**

**c) Reconciliation of lease liabilities arising from financing activities:**

	<b>Leasehold land</b>	<b>Leased motor vehicles</b>	<b>Leased warehouse</b>	<b>Total</b>
	UShs '000	UShs '000	UShs '000	UShs '000
<b>At start of year</b>	-	<b>247,386</b>	-	<b>247,386</b>
Charged to statement of profit or loss:				
Interest on finance lease liabilities	-	30,644	-	30,644
Foreign exchange loss	-	17,982	-	17,982
Cash flows:				
Operating activities	-	(30,644)	-	(30,644)
Cash flows from financing activities	-	(148,090)	-	(148,090)
<b>At end of year</b>	-	<b>117,278</b>	-	<b>117,278</b>

The Company leases land, warehouses and motor vehicles. The leases for the land and warehouse are for 99 years and 3 years respectively. The leases for the motor vehicles are for periods of 3 and 4 years. All these leases have no option for renewal.

None of the leases contains any restrictions or covenants other than protective rights of the lessor or carries a residual value guarantee.

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**24. Trade and other payables**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Trade payables	<b>14,866,274</b>	45,138,423
Accruals	<b>8,917,848</b>	8,219,675
Withholding tax payable	<b>17,923</b>	995,923
Due to related parties	<b>11,660,289</b>	6,594,984
	<b><u>35,462,334</u></b>	<u>60,949,005</u>

**25. Related parties**

The Company is controlled by Meditab Holdings Limited incorporated in Mauritius which owns 51.05% of the Company's shares. The remaining 48.95% are widely held. The ultimate parent company is Cipla Limited incorporated in India.

The following are the key related parties:

<b>Name</b>	<b>Nature of relationship</b>
Quality Chemicals Limited, Uganda	- Common Directorship
Meditab Holdings Limited, Mauritius	- Parent company
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 Limited
Cipla Medpro South Africa (Pty) Limited	- Subsidiary of Cipla Limited
Cipla Limited, India	- Ultimate Holding Company

The values and nature of transactions with related parties during the year were as follows:

<b>Related parties</b>	<b>Nature of transactions</b>	<b>2023</b>	2022
		<b>UShs '000</b>	UShs '000
	Purchase of raw materials	<b>1,691,745</b>	5,002,020
	Technical services fees	<b>6,255,191</b>	6,104,198
Cipla Limited	Sale of goods	-	34,625
	IT services	<b>667,448</b>	440,135
	Purchase of machinery	-	60,716
Cipla Kenya Limited	Purchase of finished goods	<b>10,008</b>	122,607
	Sale of goods	-	62,188
Sitec Labs Private Limited	Laboratory services	<b>232</b>	10,337
Cipla Medpro South Africa (Pty) Limited	Sale of ARVs	<b>27,101,518</b>	54,598,076
	Purchase of machinery	<b>103,411</b>	-
<b>Total transactions with related parties</b>		<b>35,829,553</b>	66,434,902



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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**25. Related parties (continued)**

The following were balances as at March 31:

**Due from related parties**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Cipla Medpro South Africa (Pty) Limited	<b>1,879,721</b>	12,157,364
Cipla Limited	<b>2,254,865</b>	832,198
	<b><u>4,134,586</u></b>	<u>12,989,562</u>

**Due to related parties**

Cipla Limited	<b>11,642,246</b>	6,591,105
Cipla Medpro South Africa (Pty) Limited	<b>17,797</b>	3,681
Sitec Labs Private Limited	<b>246</b>	198
	<b><u>11,660,289</u></b>	<u>6,594,984</u>

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

**Key management compensations**

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
Short-term employee benefits	<b><u>6,166,179</u></b>	<u>5,270,494</u>

**26. 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.

**27. 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.

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**27. Financial risk management and fair value (continued)**

The Board Audit and Risk Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables and finance 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 summarized below:

**a. Market risk**

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and price 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 (Uganda Shillings). 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 US Dollars. 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.

	<b>USD</b>	<b>UShs '000</b>
<b>As at March 31, 2023</b>		
<b>Financial assets</b>		
Cash at bank	<b>1,178,413</b>	<b>4,466,185</b>
Trade and other receivables	<b>14,061,706</b>	<b>53,293,864</b>
Due from related parties	<b>728,922</b>	<b>2,762,613</b>
	<b>15,969,041</b>	<b>60,522,662</b>
<b>Financial liabilities</b>		
Trade and other payables	<b>2,782,912</b>	<b>10,547,237</b>
Lease liabilities	<b>30,944</b>	<b>117,278</b>
Due to related parties	<b>3,071,898</b>	<b>11,642,492</b>
	<b>5,885,754</b>	<b>22,307,007</b>
<b>Net currency exposure - Assets</b>	<b>10,083,287</b>	<b>38,215,655</b>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27. Financial risk management and fair value (continued)**

**a. Market risk (continued)**

	<b>USD</b>	<b>UShs '000</b>
<b>As at March 31, 2022</b>		
<b>Financial assets</b>		
Cash at bank	2,015,310	7,285,348
Trade and other receivables	23,043,694	83,302,954
Due from related parties	<u>3,612,049</u>	<u>13,057,557</u>
	<u>28,671,053</u>	<u>103,645,859</u>
<b>Financial liabilities</b>		
Trade and other payables	10,032,775	36,268,482
Lease liabilities	186,645	674,722
Due to related parties	<u>1,556,196</u>	<u>5,625,649</u>
	<u>11,775,616</u>	<u>42,568,853</u>
Net currency exposure - Assets	<u>16,895,437</u>	<u>61,077,006</u>

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 US dollar, mainly as a result of foreign exchange gains or losses on translation of US dollar denominated assets and liabilities with all other variables held constant.

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
+1	<b>(267,510)</b>	(427,539)
-1	<b><u>267,510</u></b>	<u>427,539</u>

ii) Interest rate risk

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

The analysis below summarises the post tax effect on profit/(loss) and components of equity, if interest rates on Uganda Shilling 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.

	<b>2023</b>	2022
	<b>UShs'000</b>	UShs '000
+1	<b>(152,773)</b>	(326,867)
-1	<b><u>152,773</u></b>	<u>326,867</u>

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27. Financial risk management and fair value (continued)**

**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 minimize 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:

	<b>2023</b>	2022
	<b>UShs '000</b>	UShs '000
Trade receivables (note 17)	<b>48,738,010</b>	74,092,733
Cash at bank (note 18)	<b>10,810,923</b>	8,486,165
	<b><u>59,548,933</u></b>	<u>82,578,898</u>

The Company's major customers are National Medical Stores (Government of Uganda), Other sovereign customers, Multilateral agencies, Private market customers and Intercompany customers. The concentration of credit risk of the Company's major customers is as follows:

	<b>2023</b>	2022
	<b>UShs '000</b>	UShs '000
National Medical Stores (Government of Uganda)	<b>29,010,264</b>	44,282,110
Other sovereign customers	<b>13,498,292</b>	23,231,414
Multilateral agencies	<b>7,201,534</b>	12,553,211
Private market customers	<b>6,716,492</b>	7,278,808
Intercompany customers	<b>4,135,384</b>	12,989,563
	<b><u>60,561,966</u></b>	<u>100,335,106</u>

Expected credit losses 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 uses an overlay of measuring and forecasting the level of defaults. The Company does not hold collateral as security.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27. Financial risk management and fair value (continued)**

**b. Credit risk (continued)**

The expected credit losses 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 expected credit losses 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 considered to be in default (2022: None).

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

	<b>2023</b>			
	<b>Gross carrying amount</b>	<b>Weighted average loss rates</b>	<b>Expected Credit Loss</b>	<b>Net carrying amount</b>
	<b>US\$ '000</b>	<b>rates</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Trade receivables</b>				
Sovereign customers	42,508,556	20.69%	8,796,610	33,711,946
Intercompany 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
	<b>60,561,966</b>	<b>19.53%</b>	<b>11,825,673</b>	<b>48,736,293</b>
<b>Other financial assets</b>				
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
	<b>25,922,389</b>	<b>9.28%</b>	<b>2,405,181</b>	<b>23,517,208</b>
<b>Total financial assets</b>	<b>86,484,355</b>	<b>16.45%</b>	<b>14,230,854</b>	<b>72,253,501</b>

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**27. Financial risk management and fair value (continued)**

**b. Credit risk (continued)**

	<b>2022</b>			
	<b>Gross carrying amount</b>	<b>Weighted average loss rates</b>	<b>Expected Credit Loss</b>	<b>Net carrying amount</b>
	<b>UShs '000</b>		<b>UShs '000</b>	<b>UShs '000</b>
<b>Trade receivables</b>				
Sovereign customers	67,513,524	34.38%	23,211,627	44,301,897
Intercompany customers	12,989,563	0.00%	-	12,989,563
Multilateral agencies	12,553,211	0.00%	-	12,553,211
Private market customers	7,278,808	48.98%	3,565,283	3,713,525
	<b>100,335,106</b>	<b>26.69%</b>	<b>26,776,910</b>	<b>73,558,196</b>
<b>Other financial assets</b>				
Advance payments to suppliers	6,308,834	51.91%	3,275,087	3,033,747
VAT recoverable	5,664,153	12.53%	710,000	4,954,153
Staff advances	10,956	0.00%	-	10,956
Other receivables	534,537	0.00%	-	534,537
Cash at bank	8,486,165	0.00%	-	8,486,165
	<b>21,004,645</b>	<b>18.97%</b>	<b>3,985,087</b>	<b>17,019,558</b>
<b>Total financial assets</b>	<b>121,339,751</b>	<b>25.35%</b>	<b>30,761,997</b>	<b>90,577,754</b>

**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 \$20 million overdraft facility is maintained.

The following tables detail the Company's remaining contractual maturity 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 can be required to pay.

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**27. Financial risk management and fair value (continued)**

**c. Liquidity risk (continued)**

	<b>Up to 3 months UShs '000</b>	<b>3 to 12 months UShs '000</b>	<b>Above 12 months UShs '000</b>	<b>Total UShs '000</b>
<b>As at March 31, 2023</b>				
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
	<u>37,277,116</u>	<u>3,635,784</u>	<u>67,462</u>	<u>40,980,362</u>
<b>As at March 31, 2022</b>				
Lease liabilities	29,324	80,526	137,536	247,386
Trade and other payables	60,949,005	-	-	60,949,005
Term loan	1,717,125	5,151,375	18,888,375	25,756,875
	<u>62,695,454</u>	<u>5,231,901</u>	<u>19,025,911</u>	<u>86,953,266</u>

**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 maximize 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, 2022 and March 31, 2023.

**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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27. Financial risk management and fair value (continued)**

**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, 2023 the Company did not hold any financial assets, or financial liabilities, at fair value. The carrying amounts of the financial assets and liabilities are held at amortised cost on the statement of financial position.

**28. Subsequent events**

Africa Capitalworks SSA 3 expressed intention to acquire 51.18% of the issued ordinary shares of the Company from Meditab Holdings Limited and Cipla (EU) Limited. Since both sellers are wholly owned by Cipla Limited, the transaction will lead to a change in the ultimate shareholder.

The transaction has not been concluded at the date of this report.

**29. Comparatives**

Except 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.