CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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1 COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

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

BANKERS

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

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

SOLICITORS

K&K Advocates
SRK House
Plot 67, Lugogo Bypass
P. O. Box 6061
Kampala, Uganda

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

SECRETARY

Ms. Doreen Pachuto Awanga
Cipla Quality Chemical Industries Ltd
Luzira Industrial Park
P. O. Box 34871
Kampala, Uganda

AUDITOR

Grant Thornton Certified Public Accountants
Wing B&C, 2nd Floor, Lugogo House
42, Lugogo Bypass,
P. O. Box 7158
Kampala, Uganda

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 March 2021, which disclose the state of affairs of Cipla Quality Chemical Industries Limited ("the Company").

A. INCORPORATION AND PRINCIPAL ACTIVITY

The Company was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited ('QCL'), a private limited company incorporated in the Republic of Uganda and Cipla Limited ('Cipla'), 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 7 October 2016, and on 17 September 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).

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. DIVIDEND

The directors do not recommend the payment of a dividend for the financial year ended 31 March 2021 (2020: Nil).

D. DIRECTORS AND OFFICERS

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

Name and Nationality	Designation
Emmanuel Katongole (Ugandan)	Executive Director (Board Chairperson)
Nevin Bradford (British)	Executive Director (CEO)
George Baguma (Ugandan)	Executive Director
Sam Opio (Ugandan)	Executive Director (resigned on 31 March 2021)
John Kamili (Ugandan)	Executive Director (appointed on 27 April 2021)
Paul Miller (South African)	Non-Executive Director
Dr. Ranjana Pathak (American)	Non-Executive Director
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 Mugyenyi (Ugandan)	Independent Non-Executive Director
Joseph Baliddawa (Ugandan)	Independent Non-Executive Director

DIRECTORS' REPORT (continued)

E. DIRECTORS' INTEREST IN SHARES

As at 31 March 2021, the following directors held a direct interest in the Company's share capital as reflected in the table below:

Director	Number of shares	%
Emmanuel Katongole	101,933,042	2.7912
George William Baguma	101,933,042	2.7912
Nevin J Bradford	178,095	0.0049
Stevens Mwanje	19,400	0.0005
	204,063,579	**5.5878**

F. INDEPENDENT AUDITOR

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

G. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance which is material to the financial affairs of the Company, which has occurred between 31 March 2021 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

COMPANY SECRETARY

30 August **2021**

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 Cipla Quality Chemical Industries Limited ("the Company"). They are also responsible for safeguarding the assets of the Company.

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

The directors accept responsibility for the financial statements for the year ended 31 March 2021, 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 48, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 August 2021 and signed on its behalf by:

NJ Brealford

Director

Date: 30 August 2021

Director

Date: 30 August 2021

Grant Thornton

Certified Public Accountants

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED

Report on the financial statements

Opinion

We have audited the financial statements of Cipla Quality Chemical Industries Limited ("the Company") set out on pages 11 to 48, which comprise the statement of financial position as at 31 March 2021, 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cipla Quality Chemical Industries Limited as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards 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 Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of Financial Statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Uganda. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our report.

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Key audit matter	How our audit addressed the key audit matter
Valuation of inventories Inventories, stated at USh 68,808,084 thousand as at 31 March 2021, represent the second largest category of assets on the statement of financial position of the Company. There is a significant degree of judgement involved to ascertain that the cost of inventories accurately reflects the manufacturing costs incurred in bringing them to their physical location and condition. This particularly relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs. In addition, as per the Company's accounting policy, inventories are valued at lower of cost or net realisable value. Thus, management's assessment of percentage of write down for inventories is based on the experience and judgement.	We performed the following audit procedures, among others: - We agreed the cost of raw materials to suppliers' invoices on a sample basis. For work-in-progress, and finished goods, we assessed whether the absorption of fixed production overheads was based on a normal capacity of the production facilities and variable production overheads were absorbed into each unit of production on the basis of the actual use of the production facilities. - We also assessed whether all costs included as inventories comprise costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. In particular, we considered the nature of the overheads absorbed to ascertain whether only directly attributable costs were included. We also considered production levels to ensure inefficiencies were not absorbed. - Discussed with management to understand the methodology used for the write-down of the Company's inventories. We evaluated the methods of measurement and assumptions used with reference to historical performance and current market price. - We also assessed the potential risk for management bias. We tested the mathematical integrity of the value of inventories written down based on the agreed methodology. - We also assessed whether the inventories are valued at lower of cost or net realisable value. We found the methodology has no indication of management bias and is consistently applied with that adopted in prior years.

Revenue recognition

The Company's revenue for the year ended 31 March 2021 was UShs 284,539,939 thousand.

Given the significance of revenue as a key performance measures, there is an increased risk of misstatement to meet performance targets. In this regard, revenue has been considered a key audit matter.

- We reviewed the Company's accounting policies, including the criteria for revenue recognition.
- We obtained and reviewed sales contracts held by the entity to understand the covenants, and to identify the performance obligations therein, the transaction price and at which point the revenue should be recognised when a performance obligation has been satisfied.
- On sample basis, assessed the design and operating effectiveness of controls over the sales process.
- Performed substantive audit procedures – by supplementing analytical reviews with test of detail procedures.

Application of IFRS 16 Leases

IFRS 16 Leases requires operating leases to be on the statement of financial statements except in limited circumstances. Accounting for leases is considered to be matter of most significance as it requires the application of significant judgment and use of assumptions by management. Significant judgement is required in determining if contract contains lease, discount rate and renewal of the lease term, etc.

- Reviewed the work performed by the management for development of IFRS 16 model;
- Reviewed and verified the data used by management for development of the model.
- For rent contracts, we verified the lease terms including payment terms, renewal options, etc.

Impairment allowance against 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 UShs 100,998,956 thousand (gross) as at 31 March 2021. The cumulative impairment allowance as at that date is UShs 46,984,011 thousand. Because Expected Credit Losses (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.

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.

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

- Controls over approving, recording and monitoring of sales and customer credit;
- Controls around identifying impaired trade receivables; and
- The governance process of classification of trade receivables, including the continuous re-assessment of the appropriateness of assumptions used in for determining the impairment 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 detailed audit procedures.

Our procedures to assess management's specific impairment allowances, in response to the risks specific to specific customers included obtaining an understanding of the Company's credit policy and evaluated the processes for identifying impairment indicators and consequently, the classification of the trade receivables.

REPORT OF THE INDEPENDENT AUDITOR *(continued)*

Other information

The directors are responsible for the other information on pages 1 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.

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 International Financial Reporting Standards 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

(iii) the Company's statement of financial position and statement of 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 Yuonusu Musoke – PO453.

Grant Thornton

Grant Thornton
Certified Public Accountants

30 August **2021**

Kampala, Uganda

Yuonusu Musoke – P0453
Partner

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2021	2020
		UShs '000	UShs '000
Revenue	3	**284,539,939**	192,681,692
Cost of sales	4	**(229,514,053)**	(155,736,503)
Gross profit		**55,025,886**	36,945,189
Other income	5	**149,887**	38,507
General and administrative expenses	6	**(51,646,048)**	(36,617,171)
Impairment allowance on financial assets	16	**(9,061,502)**	(32,169,969)
Operating loss		**(5,531,777)**	(31,803,444)
Finance costs and finance income - net	9	**(4,162,471)**	(3,928,097)
Loss before tax	10	**(9,694,248)**	(35,731,541)
Taxation	11	**(843,995)**	12,658,678
Loss for the year		**(10,538,243)**	(23,072,863)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(10,538,243)**	(23,072,863)
Basic and diluted loss per share (UShs)	18(d)	**(2.89)**	(6.32)

The notes on pages 15 to 48 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	2021 USHs '000	2020 UShs '000
ASSETS			
Non-current assets			
Property, plant, equipment and right-of-use assets	12	**62,695,252**	54,189,768
Capital work-in-progress	13	**7,194,385**	19,279,748
Intangible assets	14	**1,226,370**	1,358,075
Deferred tax asset	11(b)	**11,180,841**	10,501,984
		82,296,848	85,329,575
Current assets			
Inventories	15	**68,808,084**	70,725,283
Trade and other receivables	16	**65,197,093**	87,577,600
Current tax receivable	11(a)	**859,240**	758,584
Cash and cash equivalents	17	**9,064,768**	4,075,600
		143,929,185	163,137,067
TOTAL ASSETS		**226,226,033**	248,466,642
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**45,648,865**	45,648,865
Capital grant	19	**2,275,000**	2,275,000
Retained earnings		**87,755,099**	97,313,531
		135,678,964	145,237,396
LIABILITIES			
Non-current liabilities			
Term loan	21	**24,472,000**	-
Lease liabilities	22	**248,453**	406,695
		24,720,453	406,695
Current liabilities			
Term loan	21	**8,740,000**	-
Lease liabilities	22	**217,316**	289,725
Trade and other payables	23	**55,441,065**	55,457,879
Bank overdraft	17	**1,428,235**	47,074,947
		65,826,616	102,822,551
TOTAL LIABILITIES		**90,547,069**	103,229,246
TOTAL EQUITY AND LIABILITIES		**226,226,033**	248,466,642

The financial statements on pages 11 to 48 were approved by the Board of Directors on 30 August 2021 and signed on its behalf by:

NJ Brereford

Director

Director

The notes on pages 15 to 48 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital UShs '000	Capital grant UShs '000	Retained earnings UShs '000	Total UShs '000
At 1 April 2019		45,648,865	2,275,000	120,386,394	168,310,259
Total comprehensive loss for the year					
Loss for the year		-	-	(23,072,863)	(23,072,863)
Other comprehensive income		-	-	-	-
At 31 March 2020		**45,648,865**	**2,275,000**	**97,313,531**	**145,237,396**
At 1 April 2020		45,648,865	2,275,000	97,313,531	145,237,396
Total comprehensive loss for the year					
Loss for the year		-	-	(10,538,243)	(10,538,243)
Other comprehensive income		-	-	-	-
Gain on purchase of Quality Chemicals Limited human pharmaceutical distribution business	20	-	-	1,399,730	1,399,730
Tax on gain from purchase of Quality Chemicals Limited human pharmaceutical distribution business		-	-	(419,919)	(419,919)
Other comprehensive income		-	-	-	-
At 31 March 2021		**45,648,865**	**2,275,000**	**87,755,099**	**135,678,964**

The notes on pages 15 to 48 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2021 UShs '000	2020 UShs '000
Operating activities			
Loss before tax		**(9,694,248)**	(35,731,541)
Adjustment for:			
Impairment allowance on financial assets		**9,061,502**	32,169,969
Depreciation	12	**8,114,787**	6,393,020
Deferred factory costs written off	13	**1,644,274**	-
Amortisation	14	**296,215**	429,368
Provision for obsolete inventories		**1,992,013**	1,307,036
Gain on disposal of property and equipment		**(33,898)**	(2,730)
Interest expense		**2,509,130**	3,960,507
Cash generated from operations		**13,889,775**	8,525,629
Interest paid on bank overdraft	21	**(1,698,673)**	(3,898,390)
Interest paid on term loan	21	**(753,561)**	-
Payment for interest on lease liabilities	22(c)	**(56,896)**	(62,116)
Tax paid		**(2,043,427)**	(758,584)
Changes in:			
- inventories		**1,789,219**	9,188,843
- trade and other receivables		**16,703,353**	20,290,407
- trade and other payables		**(292,298)**	(10,054,877)
Net cash generated from operating activities		**27,537,492**	23,230,912
Investing activities			
Proceeds from sale of property, plant and equipment		**33,898**	2,730
Purchase of property, plant and equipment	12	**(6,199,446)**	(3,535,093)
Additions to capital work-in-progress	13	**-**	(11,311,254)
Purchase of intangible assets	14	**(164,510)**	(49,311)
Purchase of human drug business	20	**(3,848,651)**	-
Net cash used in investing activities		**(10,178,709)**	(14,892,928)
Financing activities			
Proceeds from term loan	21	**35,245,000**	-
Repayment of term loan	21	**(1,743,250)**	-
Payment for principal portion of lease liability	22(b)	**(224,653)**	(132,782)
Net cash from/ (used in) financing activities		**33,277,097**	(132,782)
Net change in cash and cash equivalents		**50,635,880**	8,205,202
Cash and cash equivalents at start of year		**(42,999,347)**	(51,204,549)
Cash and cash equivalents at end of year		**7,636,533**	(42,999,347)

The notes on pages 15 to 48 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY INFORMATION

Cipla Quality Chemical Industries Limited ("the Company") was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited 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. The Company owns a pharmaceutical plant at Luzira Industrial Park.

On 11 November 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 24 March 2014.

On 6 August 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 31 March 2018 was 62.3%. The Company converted to a public company on 7 October 2016.

On 17 September 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 31 March 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 are prepared under the historical cost convention, except where otherwise stated. The financial statements are presented in Uganda Shillings (UShs), the functional currency of the Company. All financial information has been rounded off to the nearest thousands unless otherwise stated.

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.

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

c) Significant accounting judgements and estimates

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Significant accounting judgements and estimates (continued)

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.

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.

Current income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Significant accounting judgements and estimates (Continued)

Current income taxes (Continued)

The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Leases

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

Impairment allowance for expected credit losses on trade receivables

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

The measurement of impairment losses under IFRS 9 across relevant financial assets requires 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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments

Initial measurement of financial instruments

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

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

Measurement categories of financial assets and liabilities

The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
-Amortised cost
-Fair value through other comprehensive income (FVOCI)
-Fair value through profit or loss (FVTPL)

The Company classifies and 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)
Receivables and financial investments (continued)

The SPPI test

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

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

Reclassification of financial assets and liabilities

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

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.
The Company has transferred the financial asset if, and only if, either:
-The Company has transferred its contractual rights to receive cash flows from the financial asset; or
-It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
-The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
-The Company cannot sell or pledge the original asset other than as security to the eventual 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

Derecognition of financial assets and liabilities (continued)

A transfer only qualifies for derecognition if either:
-The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

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

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

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

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

Impairment of financial assets
IFRS 9's impairment requirements use 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.

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).

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

Classification and measurement of financial liabilities (Continued)

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.

e) 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. Refer item (i) below on leases for detailed policies for right of use assets.

Depreciation is calculated on a straight-line basis (prorated over the useful live) 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	25.00%
Tools and equipment	25.00%
Computers	33.30%
Furniture and fittings	12.50%
Plant and machinery	10.00%
Right-of-use assets	3–5years

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.

f) Intangible assets

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

- Computer software, which is amortised over its economic useful life of three years; and
- Licences and patents, which are amortised over a period of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) 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, dutie and other costs incurred in bringing the inventories to their present location and condition.

• Finished goods and work-in-progress: cost of direct materials and labour and a proportion of manufacturin 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 are recognised in profit or loss in the period it is determined.

i) 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee benefits (continued)

Defined contribution plans

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Tax (continued)

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.

k) 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.

l) Presentation currency and foreign currency transactions

The financial statements are presented in Ugandan Shillings, which is also the Company's functional currency. Transactions during the year are converted into Uganda Shillings at rates ruling at the transactions dates. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

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 instalments.

n) Revenue from contracts with customers

Revenue arises mainly from the sale of agricultural commodities. 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Revenue from contracts with customers (continued]

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

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Leases

The Company as a lessee

For any new contracts entered into on or after 1 April 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company 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) New standards, interpretations and amendments to standards

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

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

Standard/ amendment	**Effective date - Year beginning on or after**	**Key requirements**	**Impact**
Definition of a business - Amendments to IFRS 3	01-Jan-20	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs.	The impact of the amendment is not material.
Presentation of Financial Statements: Disclosure initiative – IAS 1	01-Jan-20	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The impact of the amendment is not material.
Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative - IAS 8	01-Jan-20	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The impact of the amendment is not material.
Interest rate benchmark reform Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7	01-Jan-20	Amendments issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.	The impact of the amendment is not material
COVID-19 Rent Related Concessions – IFRS 16	01-Jun-20	The amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.	The impact of the amendment is not material

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

New standards, interpretations and amendments to standards not effective

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 2021 or later periods:

Standard/amendment	**Effective date - Year beginning on or after**	**Key requirements**	**Impact**
Onerous contracts – Cost of fulfilling a contract (Amendment to IAS 37)	01-Jan-22	The amendments clarify that the 'costs of fulfilling a contract' comprise both: the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.	The impact of the amendment is not likely to be material
Proceeds before Intended Use – IAS 16	01-Jan-22	Under the amendments: •Sale proceeds no longer deducted from the cost of property, plant and equipment (PPE) before its intended use •Testing the functioning of an item of property, plant and equipment means assessing its technical and physical performance rather than financial performance. •Additional disclosure requirements for sales proceeds and related production costs	The impact of the amendment is not likely to be material
Interest rate benchmark reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01-Jan-21	The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark	The impact of the amendment is not likely to be material

NOTES TO THE FINANCIAL STATEMENTS

	2021	2020
	UShs '000	UShs '000
3 Revenue		
Local sales	**157,841,047**	167,553,898
Exports	**126,698,892**	25,127,794
	284,539,939	192,681,692

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

	2021	2020
	UShs '000	UShs '000
ARVs	**209,375,051**	116,981,489
ACTs	**71,534,706**	76,270,877
Others	**3,644,981**	-
Credit notes	**(14,799)**	(1,469,876)
Hepatitis B	**-**	899,202
Total	**284,539,939**	192,681,692

4 Cost of sales		
Material costs	**193,268,949**	119,466,333
Other production overheads	**15,558,669**	12,633,866
Staff expenses	**10,028,458**	12,131,907
Depreciation	**6,947,579**	5,286,470
Royalties	**5,483,494**	4,506,790
Stock write (back)/off	**(1,773,096)**	1,711,137
	229,514,053	155,736,503

5 Other income		
Sale of scrap	**115,989**	35,777
Gain on disposal of property and equipment	**33,898**	2,730
	149,887	38,507

6 General and administrative expenses		
Staff expenses	**20,288,139**	15,496,195
Advertising	**12,905,705**	5,406,254
Other administration expenses	**12,136,461**	9,921,894
Office expenses	**3,838,260**	3,333,577
Depreciation	**1,167,208**	1,106,550
Amortisation	**296,215**	429,368
Bank charges	**282,468**	302,986
Professional fees	**638,911**	491,295
Audit fees	**92,681**	129,052
	51,646,048	36,617,171

NOTES TO THE FINANCIAL STATEMENTS

7 Staff expenses

	2021 UShs '000	2020 UShs '000
Salaries and wages	**21,975,463**	21,135,072
Medical expenses	**1,923,551**	1,146,098
NSSF contribution	**1,992,477**	2,072,709
Staff welfare	**1,625,453**	1,907,450
Catering expenses	**1,416,116**	2,021,730
Provision of bonus - net of reversals	**1,078,602**	(957,447)
Provident fund	**138,547**	127,111
Leave provision	**123,633**	-
Training costs	**40,891**	880
Staff recruitment costs	**1,864**	174,499
	30,316,597	27,628,102
Staff costs are allocated as follows:		
Cost of sales	**10,028,458**	12,131,907
General and administrative expenses	**20,288,139**	15,496,195
	30,316,597	27,628,102

8 Amortisation and depreciation

	2021 UShs '000	2020 UShs '000
Depreciation*	**8,114,787**	6,393,020
Amortisation	**296,215**	429,368
	8,411,002	6,822,388
*Depreciation allocated as follows:		
Cost of sales	**6,947,579**	5,286,470
General and administrative expenses	**1,167,208**	1,106,550
	8,114,787	6,393,020

9 Finance costs and finance income - net

	2021 UShs '000	2020 UShs '000
Interest expense on bank overdraft	**1,698,673**	3,898,390
Interest on term loans	**753,561**	-
Interest on finance lease liabilities	**61,325**	62,116
Realised foreign exchange loss/(gain)	**3,718,222**	(2,588,392)
Unrealised foreign exchange (gain)/loss	**(2,069,310)**	2,555,983
	4,162,471	3,928,097

NOTES TO THE FINANCIAL STATEMENTS

10 Loss before tax

	2021 UShs '000	2020 UShs '000
Loss before tax is after the following charges/(credits):		
Depreciation	**8,114,787**	6,393,020
Net foreign exchange (gains)/losses	**1,648,912**	(32,409)
Amortisation	**296,215**	429,368
Auditor's remuneration	**92,681**	129,052
Gain on disposal of property, plant and equipment	**33,898**	2,730

11 Taxation

a) Income tax

Tax is provided for in the financial statements on the basis of the results included therein, adjusted in accordance with the provisions of the Income Tax Act, (Cap 340) less any tax credits and withholding tax recoverable.

	2021 UShs '000	2020 UShs '000
Current income tax charge	**1,942,771**	-
Deferred tax credit	**(1,098,776)**	(12,658,678)
	843,995	(12,658,678)

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:

	2021 UShs '000	2020 UShs '000
Loss before tax	**(9,694,248)**	(35,731,541)
Tax calculated at the statutory income tax rate of 30%	**(2,908,274)**	(10,719,462)
Tax effect of:		
Under provision for prior years	**(2,713)**	-
Expenses not deductible for tax purposes	**4,174,901**	349,798
Deferred income tax (charge)/credit not recognised	**-**	(2,289,014)
	843,995	(12,658,678)

As at 31 March 2021, the Company had tax receivable amount of UShs. 859 million (2020: UShs 759 million) resulting from provisional income tax payments made during the year. The amount will be offset against future income tax obligations of the Company.

b) Deferred tax 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:

	2021 UShs '000	2020 UShs '000
At the start of the year	**10,501,984**	(2,156,694)
Charged to statement of changes in equity	**(419,919)**	-
Credited to statement of profit or loss	**1,098,776**	12,658,678
	11,180,841	10,501,984

NOTES TO THE FINANCIAL STATEMENTS

12 Property, plant, equipment and right-of-use assets

	Right-of-use asset USh '000	Buildings UShs '000	Plant & machinery UShs '000	Furniture & fittings UShs '000	Motor vehicles UShs '000	Computers UShs '000	Tools & equipment UShs '000	Total UShs '000
COST								
At 1 April 2019	-	17,446,869	49,792,262	1,106,348	2,482,314	2,123,852	1,778,734	74,730,379
On reclassification	2,776,233	-	-	-	-	-	-	2,776,233
Additions	829,202	2,586,353	53,618	183,811	-	193,439	517,871	4,364,294
Transfer from CWIP	-	8,912,385	14,659,140	85,408	-	328,438	1,597,068	25,582,439
Disposals	-	-	-	(9,911)	(6,182)	-	-	(16,093)
At 31 March 2020	3,605,435	28,945,607	64,505,020	1,365,656	2,476,132	2,645,729	3,893,673	107,437,252
At 1 April 2020	3,605,435	28,945,607	64,505,020	1,365,656	2,476,132	2,645,729	3,893,673	107,437,252
Adjustment	(20,264)	-	-	-	-	-	-	(20,264)
Additions	-	-	2,636,228	352,618	464,562	848,319	1,897,719	6,199,446
Transfer from CWIP	-	4,273,469	6,167,620	-	-	-	-	10,441,089
Disposals	-	-	-	-	(192,769)	-	-	(192,769)
At 31 March 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**
DEPRECIATION								
At 1 April 2019	-	7,300,227	33,946,263	927,184	1,605,572	1,674,604	1,416,707	46,870,557
Charge for the year	184,270	910,219	4,019,298	113,551	450,405	358,323	356,954	6,393,020
On disposals	-	-	-	(9,911)	(6,182)	-	-	(16,093)
At 31 March 2020	184,270	8,210,446	37,965,561	1,030,824	2,049,795	2,032,927	1,773,661	53,247,484
At 1 April 2020	184,270	8,210,446	37,965,561	1,030,824	2,049,795	2,032,927	1,773,661	53,247,484
Charge for the year	158,358	1,241,137	4,823,620	164,353	386,166	451,783	889,370	8,114,787
On disposals	-	-	-	-	(192,769)	-	-	(192,769)
At 31 March 2021	**342,628**	**9,451,583**	**42,789,181**	**1,195,177**	**2,243,192**	**2,484,710**	**2,663,031**	**61,169,502**
NET BOOK VALUE								
At 31 March 2021	**3,242,543**	**23,767,493**	**30,519,687**	**523,097**	**504,733**	**1,009,338**	**3,128,361**	**62,695,252**
At 31 March 2020	3,421,165	20,735,161	26,539,459	334,832	426,337	612,802	2,120,012	54,189,768

NOTES TO THE FINANCIAL STATEMENTS

13 Capital work-in-progress

	Buildings UShs '000	Other capital work in progress UShs '000	Deferred consultancy UShs '000	Total UShs '000
At 31 March 2019	11,264,102	20,642,557	1,644,274	33,550,933
Additions	1,935,465	9,375,789	-	11,311,254
Transfer to property, plant and equipment	(8,912,385)	(16,670,054)	-	(25,582,439)
At 31 March 2020	4,287,182	13,348,292	1,644,274	19,279,748
At 1 April 2020	4,287,182	13,348,292	1,644,274	19,279,748
Reclassified on capitalisation	(13,713)	13,713	-	-
Written off to profit or loss	-	-	(1,644,274)	(1,644,274)
Transfer to property, plant and equipment	(4,273,469)	(6,167,620)	-	(10,441,089)
At 31 March 2021	**-**	**7,194,385**	**-**	**7,194,385**

The capital work-in-progress (CWIP) represents the cost of the machinery under installation, consultancy services relating to design fees for phase 2 of the factory and construction costs-to-date of the boundary wall for the Company's additional premises for the Active Pharmaceutical Ingredients (API) plant.

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

The consultancy services related to design fees for phase 2 of the factory that had been planned to increase production capacity. The factory construction plans were revised and deferral of these costs was no longer appropriate. Accordingly, the amounts were written off to the profit or loss account during the year.

NOTES TO THE FINANCIAL STATEMENTS

	2021	2020
	UShs '000	UShs '000
14 Intangible assets		
COST		
At start of year	**3,073,486**	3,024,175
Additions	**164,510**	49,311
At end of year	**3,237,996**	3,073,486
AMORTISATION		
At start of year	**1,715,411**	1,286,043
Charge for the year	**296,215**	429,368
At end of year	**2,011,626**	1,715,411
NET CARRYING AMOUNT	**1,226,370**	1,358,075

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

	2021	2020
	UShs '000	UShs '000
15 Inventories		
Raw materials	**34,474,854**	47,111,830
Finished goods	**12,199,912**	4,354,828
Work-in-progress	**10,832,893**	7,798,793
Packing materials	**7,285,069**	9,333,785
Stocks in transit	**6,540,281**	2,183,495
Other stocks	**1,371,653**	1,847,117
	72,704,662	72,629,848
Less: provision for obsolete inventories	**(3,896,578)**	(1,904,565)
	68,808,084	70,725,283
16 Trade and other receivables		
Financial instruments		
Trade receivables	**100,998,956**	97,820,117
Less: expected credit losses	**(46,984,011)**	(37,482,709)
	54,014,945	60,337,408
Other receivables	**217,827**	670
Non-financial instruments		
Advance payments to suppliers	**5,327,158**	17,720,544
VAT recoverable	**4,614,647**	8,591,420
Withholding tax recoverable	**356,352**	355,821
Prepayments	**665,524**	450,226
Staff advances	**640**	121,511
	65,197,093	87,577,600
Movement in expected credit losses		
Opening balance	**37,482,709**	5,312,740
Acquired human drug business receivables provision	**439,800**	-
Charge to profit or loss	**9,061,502**	32,169,969
Closing balance	**46,984,011**	37,482,709

NOTES TO THE FINANCIAL STATEMENTS

16 Trade and other receivables (continued)

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:

	2021	2020
	UShs '000	UShs '000
Grading of receivables		
High grade (0–90 days)	**54,404,493**	41,262,968
Standard grade (91–365 days)	**3,647,325**	26,609,638
Individually impaired and over 365 days	**42,947,138**	29,947,511
Total	**100,998,956**	97,820,117

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

	2020	2019
	UShs '000	UShs '000
Movement in gross trade receivables		
Opening balance	**97,820,117**	113,391,254
Sales during the year:	**284,539,939**	192,681,692
Receipts	**(281,361,100)**	(208,252,829)
Closing balance	**100,998,956**	97,820,117

	From 61 to 90 days	From 91 to 180 days	From 181 to 365 days	Over 365 days	Total
	UShs '000	UShs '000	UShs '000	UShs '000	UShs '000
Past due but not impaired	4,347,426	10,083	302,131	-	4,659,640
Past due and impaired	-	(9,429)	(162,139)	-	(171,568)
	4,347,426	**654**	**139,992**	**-**	4,488,072

In the opnion of the directors, the carrying amount of trade and other receivables approximate to their fair values.

	2021	2020
	UShs '000	UShs '000
17 Cash and cash equivalents		
Cash on hand	**864**	80,287
Cash at bank	**9,063,904**	3,995,313
Cash and cash equivalents in the statements of financial position	**9,064,768**	4,075,600
Bank overdraft	**(1,428,235)**	(47,074,947)
Cash and cash equivalents in the statement of cash flows	**7,636,533**	(42,999,347)

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances.

The cash and bank balances are held at Absa Bank Uganda Limited and Standard Chartered Bank Uganda Limited and, insofar as 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 31 March 2021 (2020: Nil).

The overdraft facilities were obtained from Absa Bank Uganda Limited (Absa) and Standard Chartered Bank Uganda Limited (Standard Chartered) for cash management purposes. The Absa facility was reduced to a limit of USD 10.00 million from USD 19.65 million in 2020 after receipt of a loan from Standard Chartered to refinance capital expenditure. The Absa overdraft interest rate is 4 per cent above 3 months LIBOR while the Standard Chartered interest rate is 3.5% above 3 months LIBOR.

NOTES TO THE FINANCIAL STATEMENTS

17 Cash and cash equivalents (continued)

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

	2021	2020
	UShs '000	UShs '000
US dollar	**4,970,288**	13,552
Uganda Shilling	**4,093,616**	3,981,761
	9,063,904	3,995,313

18 Share capital

a) Ordinary shares - authorised, issued and fully paid

	2021	2020
Number of shares	**3,651,909,200**	3,651,909,200
Nominal value per share (UShs)	**12.5**	12.5
Authorised and issued capital (UShs '000)	**45,648,865**	45,648,865

On 5 October 2016, the shareholders pursuant to Section 71 of the Companies Act, 2012, 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 the current par value of UShs 5,000 to UShs 12.5 per share and the number of shares be 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.

b) Shareholding

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

	2021		2020	
	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**	**1.75%**	64,023,100	1.75%
	3,651,909,200	**100%**	3,651,909,200	100%

c) Spread of shares

Holding at 31 March 2021	**No. of investors**	No of shares held	Percentage holding
Between 0 and 1,000 Shares	**445**	396,814	0.0%
Between 1,001 and 5,000 Shares	**973**	2,690,749	0.1%
Between 5,001 and 10,000 Shares	**402**	3,473,278	0.1%
Between 10,001 and 1,000,000 Shares	**763**	48,632,359	1.3%
Above 1,000,001 Shares	**14**	3,596,716,000	98.5%
	2,597	3,651,909,200	100%

NOTES TO THE FINANCIAL STATEMENTS

c) Spread of shares (continued)

Holding at 31 March 2020	No. of investors	No of shares held	Percentage holding
Between 0 and 1,000 Shares	435	395,253	0.0%
Between 1,001 and 5,000 Shares	963	2,709,740	0.1%
Between 5,001 and 10,000 Shares	404	3,448,925	0.1%
Between 10,001 and 1,000,000 Shares	770	50,100,582	1.4%
Above 1,000,001 Shares	14	3,595,254,700	98.5%
	2,586	3,651,909,200	100%

d) Earnings per share

	2021	2020
Loss attributable to ordinary equity holders of the Company (UShs'000)	**(10,538,243)**	(23,072,863)
Weighted average number of ordinary shares in issue during the year	**3,651,909,200**	3,651,909,200
	(2.89)	(6.32)

Diluted earnings per share amounts are calculated by dividing the (loss)/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.

19 Capital grant

On 21 December 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.

20 Purchase of Quality Chemicals Limited human pharmaceutical distribution business

In September 2020, an agreement was concluded to sell and transfer the QCL's human drug business to the Company for consideration of US$ 1,035,140. The net identifiable assets acquired were as follows:

	Value UShs '000
Asset	
Inventory	1,879,816
Trade receivables	3,368,565
	5,248,381
Consideration paid	(3,848,651)
	1,399,730

Given that QCL is related to the Company through common ownership and directorship with Cipla Limited (India), the parent, the gain on this purchase was directly recognized as a credit in the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

	2021	2020
	USh s '000	UShs '000
21 Term loan		
Current portion	**8,740,000**	-
Non-current portion	**24,472,000**	-
	33,212,000	-

During the year, the Company obtained a term loan from Standard Chartered Bank Uganda Limited of $ 9,500,000 (2020: Nil) to refinance the capital expenditure originally financed using short term funds at weighted average interest rate of 5.87%. The loan is unsecured and is repayable by September 2025.

The movement in bank borrowings is as follows:

Year ended 31 March 2021

	Term loan	Bank overdraft	Total
	UShs '000	UShs '000	UShs '000
At start of year	-	47,074,947	47,074,947
Interest charged to profit or loss	753,561	1,698,673	2,452,234
Foreign exchange loss	(289,750)	1,926,627	1,636,877
Cash flows:			
Interest paid	(753,561)	(1,698,673)	(2,452,234)
Proceeds from bank borrowings	35,245,000	-	35,245,000
Repayment of bank borrowings	(1,743,250)	(47,573,339)	(49,316,589)
At end of year	33,212,000	1,428,235	34,640,235

Year ended 31 March 2020

	Term loan	Bank overdraft	Total
	UShs '000	UShs '000	UShs '000
At start of year	-	51,973,633	51,973,633
Interest charged to profit or loss	-	3,898,390	3,898,390
Foreign exchange loss	-	2,184,348	2,184,348
Cash flows:			
Interest paid	-	(3,898,390)	(3,898,390)
Repayment of bank borrowings	-	(7,083,034)	(7,083,034)
At end of year	-	47,074,947	47,074,947

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

	2021	2020
	UShs '000	UShs '000
6 months or less	**3,496,000**	-
6 - 12 months	**6,672,235**	47,074,947
1 - 5 years	**24,472,000**	-
	34,640,235	47,074,947

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

NOTES TO THE FINANCIAL STATEMENTS

22 Right-of-use assets and lease liabilities

	Leasehold land UShs '000	Leased motor vehicles UShs '000	Leased warehouse UShs '000	Total UShs '000
a) Right-of-use assets				
Year ended 31 March 2020				
On reclassification	2,776,233	-	-	2,776,233
Additions	-	500,731	328,471	829,202
Depreciation	-	(74,780)	(109,490)	(184,270)
At end of year	2,776,233	425,951	218,981	3,421,165
Year ended 31 March 2021				
At start of year	**2,776,233**	**425,951**	**218,981**	**3,421,165**
Adjustment	**-**	**(31)**	**(20,233)**	**(20,264)**
Depreciation	**-**	**(55,612)**	**(102,746)**	**(158,358)**
At end of year	**2,776,233**	**370,308**	**96,002**	**3,242,543**
b) Lease liabilities				
At 31 March 2021				
Current	**-**	**109,641**	**107,675**	**217,316**
Non-current	**-**	**248,453**	**-**	**248,453**
At end of year	**-**	**358,094**	**107,675**	**465,769**
At 31 March 2020				
Current	-	177,216	112,509	289,725
Non-current	-	279,161	127,534	406,695
At end of year	-	456,377	240,043	696,420
Cash outflow for leases in year was:				
Payment for principal portion of lease liability	-	124,148	100,505	224,653
Payment for interest on lease liabilities	-	49,297	7,599	56,896
	-	173,445	108,104	281,549
c) Reconciliation of lease liabilities arising from financing activities:				
At start of year	-	456,377	240,043	696,420
Adjustment to cost of warehouse liability		(31)	(20,233)	(20,264)
Charged to statement of profit or loss:				
Interest on finance lease liabilities		49,297	7,599	56,896
Foreign exchange loss		25,896	(11,630)	14,266
Cash flows:				
Operating activities	-	(49,297)	(7,599)	(56,896)
Financing activities	-	(124,148)	(100,505)	(224,653)
At end of year	**-**	**358,094**	**107,675**	**465,769**

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 convenats other than protective rights of the lessor or carries a residual value guarantee.

In the opinion of the directors, the carrying amount of the lease assets and liabilities approximate to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

	2021	2020
	UShs '000	UShs '000
23 Trade and other payables		
Trade payables	**22,318,830**	28,294,025
Accruals	**10,745,196**	5,262,907
Withholding tax payable	**441,186**	620,505
Due to related parties	**21,935,853**	21,280,442
	55,441,065	55,457,879

24 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.

i) The following are the key related parties:

Name	**Nature of relationship**
Quality Chemicals Limited, Uganda	- Shareholder/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 Medpro South Africa (Pty) Limited	- Subsidiary of Cipla Limited
Cipla Limited, India	- Ultimate Holding Company

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

Related party	**UShs'000**	**Nature of transactions**
Cipla Limited	5,065,954	• Purchase of raw materials
	5,483,494	• Technical services fees
	97,617	• Sale of goods
	310,382	• IT services
	12,685	• Purchase of machinery
Sitec Labs Private Limited	17,818	• Analytical work on raw materials
Cipla Medpro South Africa (Pty) Limited	2,887,164	• Purchase of materials
	54,802,913	• Sale of ARVs
Total transactions with related parties	68,678,027	

The following were the balances as at 31 March:

	2021	2020
	UShs '000	UShs '000
a) Due from related parties		
Cipla Medpro South Africa (Pty) Limited	**-**	5,936,996
Cipla Limited	**997,443**	1,007,163
	997,443	6,944,159

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

	2021	2020
	UShs '000	UShs '000
b) Due to related parties		
Cipla Limited	**21,914,957**	21,255,603
Cipla Medpro South Africa (Pty) Limited	**2,832**	-
Sitec Labs Private Limited	**18,064**	24,838
	21,935,853	21,280,442

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

NOTES TO THE FINANCIAL STATEMENTS

	2021	2020
	UShs '000	UShs '000
24 Related parties (continued)		
c) Key management compensation		
Short-term employee benefits	**4,849,988**	4,364,114

25 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.

26 Financial risk management

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.

The Board Audit 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 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 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, foreign currency risk and credit risk.The Company has policies for managing financial risks as summarized below:

a) Market risk

i) Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases by the Company in currencies other than its functional currency (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.

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

a) Market risk (continued)

i) Foreign currency risk(continued)

	US$	UShs '000
At 31 March 2021		
Financial assets		
Bank balances	**2,401,335**	**8,836,912**
Trade and other receivables	**26,496,377**	**97,506,666**
Due from related parties	**270,433**	**995,192**
	29,168,145	**107,338,770**
Financial liabilities		
Trade and other payables	**4,801,088**	**17,668,005**
Bank overdraft	**388,107**	**1,428,235**
Lease liabilities	**126,568**	**465,769**
Due to related parties	**5,960,830**	**21,935,853**
	11,276,593	**41,497,862**
Net position (receivable)	**17,891,552**	**65,840,908**
At 31 March 2020		
Financial assets		
Bank balances	2,122	8,068
Trade and other receivables	15,389,806	58,512,042
Due from related parties	2,839,993	10,797,655
	18,231,921	69,317,765
Financial liabilities		
Trade and other payables	1,940,587	7,378,110
Bank overdraft	12,382,233	47,074,947
Lease liabilities	183,172	696,420
Due to related parties	5,819,507	22,125,766
	20,325,499	77,275,243
Net position (payable)	(2,093,578)	(7,957,478)

The analysis below summarises the effect on post tax loss and components of equity had the Uganda Shilling weakened or strengthened by 1% against the dollar with all other variables held constant.

	2021	2020
	UShs '000	UShs '000
+1%	**(658,409)**	(260,427)
-1%	**658,409**	260,427

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

a) Market risk (continued)

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.

At 31 March, the effect on post tax loss and components of equity of an increase/(decrease) of 1% in interest rates with all other variables held constant is summarised below:

	2021	2020
	UShs '000	UShs '000
+1%	**(474,831)**	(548,960)
-1%	**474,831**	548,960

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:

	2021	2020
	UShs '000	UShs '000
Trade and other receivables	**55,037,461**	61,264,966
Cash at bank	**9,063,904**	3,995,313
	64,101,365	65,260,279

The Company's major customers are currently Government of Uganda (GOU), Government of Zambia and other private and Governmental customers. The concentration of credit risk of the Company's major customers is as follows:

	2021	2020
	UShs '000	UShs '000
Government of Uganda (GOU) – NMS	**135,557,918**	114,944,930
Global Fund to Fight AIDS, Tuberculosis and Malaria	**32,884,762**	56,749,170
Other sovereign customers	**24,198,717**	1,483,018
Presidential Malaria Initiative	**16,114,983**	-
	208,756,380	**173,177,118**

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

b) Credit risk (continued)

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.

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 (2020: None).

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

	2021			
	Gross receivables UShs '000	**Loss rates**	**Expected Credit Loss UShs '000**	**Carrying amount UShs '000**
Trade receivables				
Sovereign customers	**42,947,139**	**100%**	**42,947,139**	**-**
Intercompany customers	**997,443**	**0%**	**-**	**997,443**
Multilateral Agencies	**15,482,251**	**0%**	**-**	**15,482,251**
Private market customers	**41,572,123**	**10%**	**4,036,872**	**37,535,251**
	100,998,956		**46,984,011**	**54,014,945**
Other financial assets				
Advance payments to suppliers	**5,327,158**	**0%**	**-**	**5,327,158**
Withholding tax recoverable	**356,352**	**0%**	**-**	**356,352**
VAT recoverable	**4,614,647**	**0%**	**-**	**4,614,647**
Staff advances	**640**	**0%**	**-**	**640**
Other receivables	**217,827**	**0%**	**-**	**217,827**
Prepayments	**665,524**	**0%**	**-**	**665,524**
Cash at bank	**9,063,904**	**0%**	**-**	**9,063,904**
	20,246,052		**-**	**20,246,052**
Total financial assets	**121,245,008**		**46,984,011**	**74,260,997**

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

b) Credit risk (continued)

	2020			
	Gross receivables UShs '000	Loss rates	Expected Credit Loss UShs '000	Carrying amount UShs '000
Trade receivables				
Sovereign customers	79,105,924	43%	34,218,000	44,887,924
Intercompany customers	10,435,242	0%	-	10,435,242
Multilateral agencies	4,004,743	0%	-	4,004,743
Private market customers	4,274,208	76%	3,264,709	1,009,499
	97,820,117		37,482,709	60,337,408
Other financial assets				
Advance payments to suppliers	17,720,544	0%	-	17,720,544
Withholding tax recoverable	355,821	0%	-	355,821
VAT recoverable	8,591,420	0%	-	8,591,420
Staff advances	121,511	0%	-	121,511
Other receivables	670	0%	-	670
Prepayments	450,226	0%	-	450,226
Bank balances	3,995,313	0%	-	3,995,313
	31,235,505		-	31,235,505
Total financial assets	129,055,622		37,482,709	91,572,913

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.

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.

	Up to 3 months UShs '000	**3 to 12 months UShs '000**	**Above 12 months UShs '000**	**Total UShs '000**
31 March 2021				
Bank overdraft	**-**	**1,428,235**	**-**	**1,428,235**
Finance lease liabilities	**52,378**	**164,938**	**239,704**	**457,020**
Trade and other payables	**55,441,065**	**-**	**-**	**55,441,065**
	55,493,443	**1,593,173**	**239,704**	**57,326,320**
31 March 2020				
Bank overdraft	-	47,074,947	-	47,074,947
Finance lease liabilities	72,980	216,745	406,695	696,420
Trade and other payables	55,457,879	-	-	55,457,879
	55,530,859	47,291,692	406,695	103,229,246

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

d) Capital management

Capital includes equity attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and 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 31 March 2020 and 31 March 2021.

e) Fair value measurement

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

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

f) Valuation models

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identica instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directl (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 th 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 31 March 2021, the Company did not hold any financial assets, or financial liabilities, at fair value. The carrying amounts of the financial assets and liabilities, held at amortised cost on the statement of financial position, approximate their fair values as at that date.

NOTES TO THE FINANCIAL STATEMENTS

27 Subsequent events

The directors are not aware of any matter or circumstance which is material to the financial affairs of the Company, which has occurred between 31 March 2021 and the date of approval of the financial statements, that has not been otherwise dealt with in the financial statements.

28 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.

29 Presentation currency

The financial statements are presented in Uganda Shillings (UShs) rounded off to the nearest thousand, unless indicated otherwise.